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ATTORNEYS AT LAW

Erin Daniels
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January 31, 2008

South Dakota Secretary of State
State Capitol, Suite 204
Business Division-Bond Information Statement Filing
500 East Capitol
Pierre, SD 57501-5070

Re: \$2,290,000 City of Sioux Falls, South Dakota Tax Increment Revenue Bonds, Series 2008A

Dear Filing Officer:

Enclosed for filing is a Bond Information Statement for the above-referenced transaction, together with a check for the \$1.00 filing fee. A copy of the Official Statement for the above-referenced offering is also enclosed for your reference.

Please return acknowledgment of filing at your earliest opportunity.

If you have any questions, please call me at (612) 371-3909.

Sincerely,



Erin Daniels
Legal Assistant

Enclosures

RECEIVED
FEB - 4 2008
S.D. SEC. OF STATE
1758369

BOND INFORMATION STATEMENT
State of South Dakota
SDCL 6-8B-19

Return:

Every public body, authority, or agency issuing any general obligation, revenue, improvements, industrial revenue, special assessment, or other bonds of any type shall file with the Secretary of State a bond information statement concerning each issue of bonds.

1. Name of issuer: City of Sioux Falls, South Dakota
2. Designation of issue: Tax Increment Revenue Bonds, Series 2008A
3. Date of issue: January 31, 2008
4. Purpose of issue: to pay the project costs in the Tax Increment District Number 5 Plan
5. Type of bond: Tax Increment Revenue
6. Principal amount and denomination of bond: \$2,290,000; \$5,000 denominations
7. Paying dates of principal and interest: See Official Statement
8. Amortization schedule: See Official Statement
9. Interest rate or rates, including total aggregate interest cost: See Official Statement

This is to certify that the above information pertaining to the bond is true and correct on this 31st day of January, 2008.

Eugene Bowerhorst
City Finance Director

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NEW ISSUE**NON-RATED**

In the opinion of Lindquist & Vennum P.L.L.P., Bond Counsel, according to federal laws, regulations, rulings and decisions in effect on the date of issuance of the Series 2008A Bonds, the interest to be paid on the Series 2008A Bonds is not includable in gross income for federal income tax purposes except under certain conditions. Interest paid on Series 2008A Bonds is not an item of tax preference includable for purposes of computing the alternative minimum tax applicable to all taxpayers, including individuals, under the Internal Revenue Code of 1986, as amended (the "Code"), however, interest paid on the Series 2008A Bonds is includable for purposes of computing certain other taxes imposed on corporations and individuals. Interest on the Series 2008A Bonds is includable in gross income for South Dakota income tax purposes when the owner is a financial institution as defined in South Dakota Codified Laws, Chapter 10-43. See "TAX MATTERS" herein.

\$2,290,000
CITY OF SIOUX FALLS, SOUTH DAKOTA
TAX INCREMENT REVENUE BONDS, SERIES 2008A

Dated: Date of Issuance

Due: January 15, as shown below

THE BONDS OFFERED HEREBY (REFERRED TO HEREIN AS THE "SERIES 2008A BONDS") ARE LIMITED OBLIGATIONS OF SIOUX FALLS, SOUTH DAKOTA, A POLITICAL SUBDIVISION OF THE STATE OF SOUTH DAKOTA (THE "CITY") PAYABLE SOLELY FROM THE COLLECTIONS OF TAX INCREMENT REVENUES RECEIVED BY THE CITY FROM ITS TAX INCREMENT DISTRICT NUMBER FIVE, WHICH HAVE BEEN IRREVOCABLY PLEDGED TO THE PAYMENT THEREOF, AND FROM CERTAIN OTHER MONEYS HELD BY THE TRUSTEE NAMED BELOW PURSUANT TO THE INDENTURE DESCRIBED HEREIN. THE SERIES 2008A BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY, THE STATE OF SOUTH DAKOTA OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE.

Sioux Falls, South Dakota (the "City"), a political subdivision of the State of South Dakota, is issuing its \$2,290,000 aggregate principal amount of Tax Increment Revenue Bonds, Series 2008A (the "Series 2008A Bonds"), pursuant to an Indenture of Trust, dated as of January 1, 2008, between the City and The First National Bank in Sioux Falls, Sioux Falls, South Dakota (the "Trustee"). The Series 2008A Bonds are limited obligations of the City, payable solely from the collections of tax increment revenues received by the City from its Tax Increment District Number Five (the "Tax Increment District"), which have been irrevocably pledged to the payment thereof, and from certain other moneys held by the City. The Series 2008A Bonds are not general obligations of the City, the State of South Dakota, or any other political subdivision of the State of South Dakota. See "The Series 2008A Bonds" herein.

The Series 2008A Bonds are issuable as fully registered bonds of single maturities, in denominations of \$5,000 or any integral multiple thereof. Interest will be payable semiannually on each July 15 and January 15, commencing July 15, 2008. Principal of the Series 2008A Bonds will be payable on January 15, as set forth below. The Series 2008A Bonds will be registered in the name of Cede & Co., when issued, as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). Purchasers of the Series 2008A Bonds will not receive physical bond certificates. Ownership by the Beneficial Owners of the Series 2008A Bonds will be evidenced by book-entry only. Principal and interest payments will be made directly to Cede & Co., as the nominee registered owner of DTC, which will in turn remit principal and interest payments to the DTC Participants to then be disbursed to the Beneficial Owners of the Series 2008A Bonds. (See "The Series 2008A Bonds" herein.) The Trustee will act as Registrar, Transfer Agent and Paying Agent.

Maturity Schedule

Maturity (January 15)	Interest Amount	Rate	Price or Yield	CUSIP	Maturity (January 15)	Amount	Interest Rate	Price or Yield	CUSIP
2014	\$125.000	4.000%	4.150%	829602AA9	2018	\$115.000	4.450%	4.450%	829602AD3
2016	210.000	4.200	4.350	829602AB7	2019	120.000	4.550	4.550	829602AE1
2017	110.000	4.400	4.400	829602AC5	2028	1.610.000	5.750	5.850	829602AF8

The Series 2008A Bonds are offered, subject to prior sale, when, as and if accepted by the Underwriter named below and subject to an opinion as to legality and tax exemption by Lindquist & Vennum P.L.L.P. in Minneapolis, Minnesota, as Bond Counsel, the approval of certain matters by Gary Colwill, City Attorney for Sioux Falls, South Dakota, and the approval of certain matters by Dorsey & Whitney LLP, Minneapolis, Minnesota, as counsel to and for the benefit of the Underwriter, and certain other conditions. It is expected that delivery of the Series 2008A Bonds in definitive form will be made on or about January 31, 2008, against payment therefor. The Underwriter expects, but is not required, to engage in secondary market trading in the Series 2008A Bonds, subject to applicable securities laws. For information with respect to the Underwriter see "UNDERWRITING" herein.

DOUGHERTY & COMPANY LLC

This Official Statement does not constitute an offer to sell the Series 2008A Bonds in any state or other jurisdiction to any person to whom it is unlawful to make such offer in such state or jurisdiction. No dealer, salesman, or any person has been authorized to give any information or to make any representation other than those contained herein in connection with the offering of the Series 2008A Bonds, and if given or made, such information or representation must not be relied upon.

The information set forth herein has been furnished by the City and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy of completeness by, and is not to be construed as a representation by, the City or anyone acting on its behalf. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale of the Series 2008A Bonds shall, except as specifically stated herein, create any implication that there has been no change in the affairs of the City since the date of this Official Statement.

The Series 2008A Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon exceptions contained in the Securities Act of 1933.

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IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE CITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

THIS OFFICIAL STATEMENT CONTAINS STATEMENTS WHICH SHOULD BE CONSIDERED "FORWARD-LOOKING STATEMENTS," MEANING THEY REFER TO POSSIBLE FUTURE EVENTS OR CONDITIONS. SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY THE WORDS SUCH AS "PLAN," "EXPECT," "PROJECTED," "ESTIMATE," "BUDGET" OR SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT EXPECT OR INTEND TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED, OCCUR.

OFFICIAL STATEMENT

\$2,290,000

CITY OF SIOUX FALLS, SOUTH DAKOTA TAX INCREMENT REVENUE BONDS, SERIES 2008A

INTRODUCTORY STATEMENT

The following is a brief introduction as to matters discussed elsewhere in this Official Statement and is qualified in its entirety by such further discussion and the text of the actual documents described or referenced.

This Official Statement provides information regarding the City of Sioux Falls, South Dakota Tax Increment Revenue Bonds, Series 2008A (the “Series 2008A Bonds”) to be issued in the aggregate principal amount of \$2,290,000 by Sioux Falls, South Dakota, a political subdivision of the State of South Dakota (the “City”), pursuant to an Indenture of Trust, dated as of January 1, 2008 (the “Indenture”), between the City and The First National Bank in Sioux Falls, in Sioux Falls, South Dakota (together with its successors and assigns the “Trustee”). (The Series 2008A Bonds and any Additional Bonds which may hereafter be issued, as described under “THE SERIES 2008A BONDS—Additional Bonds,” are collectively referred to herein as the “Bonds.”) The Series 2008A Bonds will be issued (i) to pay the costs listed in the Project Plan for Tax Increment District Number Five, City of Sioux Falls, as amended (the “Project Plan”), (ii) capitalized interest on the Series 2008A Bonds, and related expenses, including costs of issuance (collectively, the “Project Costs”); and (iii) to fund a debt service reserve.

The Series 2008A Bonds are limited obligations of the City payable solely from property taxes paid with respect to the increase in the total assessed value of the Tax Increment District Number Five (the “Tax Increment Revenues”), and under certain circumstances from proceeds of the Series 2008A Bonds held by the Trustee under the Indenture. Neither the faith and credit nor the general taxing power of the State of South Dakota, any county, municipality, political subdivision or governmental unit or agency thereof, including the City, is or shall be pledged to the payment of principal or interest on the Series 2008A Bonds. Under the Indenture, the City will assign and pledge to the Trustee, for the benefit of Bondholders, the collections of the Tax Increment Revenues of Tax Increment District Number Five (the “Tax Increment District”) in each year for the payment of the principal of, premium, if any, and interest on the Series 2008A Bonds.

Brief descriptions of the City, the Tax Increment District, the Project Plan, the Series 2008A Bonds and certain other documents are included in this Official Statement and the appendices hereto. Such descriptions do not purport to be comprehensive or definitive. All references herein to such documents and any other documents described herein are qualified in their entirety by reference to the forms thereof or to the information with respect thereto included in the aforementioned documents. The Underwriter has made no independent verification of any information provided by the City herein, including financial information, and assumes no responsibility for the accuracy or completeness thereof.

THE CITY

General

Sioux Falls is located in southeastern South Dakota and is the county seat of Minnehaha County. The City is the largest in South Dakota with an estimated Metropolitan Statistical Area population of 222,570, and serves as a retail trade center for an estimated 750,000 people in southwestern Minnesota, northwestern Iowa and eastern South Dakota. Approximately 67 square miles are encompassed within the City.

For general information concerning the City, its general finances, sources of revenue, outstanding obligations, taxes and property values, see "APPENDIX A" attached.

TAX INCREMENT DISTRICT NUMBER FIVE

Acting under authority of South Dakota Codified Laws Chapter 11-9 (the "Act"), the governing body of the City has by ordinance adopted September 19, 2005, created the Tax Increment District and approved a project plan therefor on October 17, 2005, as amended on March 20, 2006. The Tax Increment District encompasses approximately 5.5 acres and the boundaries are: Tracts 2-4 of Dorothy's Addition; Tract 20 and 32 of Unplatted Lands, Section 16-101-49; Batcheller Tract 1 of Unplatted Lands, Section 16-101-49; the Triangular Piece of Tract 16 and Tract 16 of Unplatted Lands, Section 16-101-49; and the railroad right of way adjacent to the southern boundary of the Triangular Piece of Tract 16 and the southern boundary of Tract 16 of Unplatted Lands, Section 16-101-49 all located in Minnehaha County, South Dakota, in the jurisdiction of the City.

The assessed value of the Tax Increment District, as certified by the State Department of Revenue at the time the Tax Increment District was created in 2005, totaled \$410,264 prior to the application of the equalization factor. (See "SOUTH DAKOTA PROPERTY TAX SYSTEM" herein). This value constitutes the Tax Increment District's tax increment base (the "Tax Increment Base").

THE PROJECT PLAN

General

The Project Plan for the Tax Increment District anticipates the private development of three new buildings. The first, Cherapa Place (the "Cherapa Facility"), was substantially completed in late 2007. (See "The Cherapa Facility" subheading below for more details.) The other two buildings will be designed for mixed use and are scheduled for completion within the next five years. The second and third buildings are expected to have eight and six floors, respectively, and assessed values of \$17,600,000 and \$8,000,000, respectively. The second and third buildings are projected to comprise approximately 170,000 and 68,000 square feet, respectively.

Generation and Use of Tax Increment Revenues

The Project Plan provides for the use of Tax Increment Revenues to finance the preparation of the entire Project Plan site, including razing an existing tower and relocating utilities, landscaping, lighting, paving, and constructing curbs, sidewalks, and public parking. The tax-assessed value of property in the Tax Increment District is estimated in the Project Plan to increase by \$36,000,000 over the life of the Tax Increment District.

The Cherapa Facility

The Cherapa Facility was substantially completed in late 2007 and will be fully completed in early 2008 at an estimated cost of \$24,260,100, including land. It features six floors of office space, plus underground parking. The Cherapa Facility comprises approximately 143,695 square feet and has received a gold-level LEED (Leadership in Energy and Environmental Design) certification from the U.S. Green Building Council.

The Cherapa Facility has six tenants and a 95.4% occupancy rate as of the date of this Official Statement, with commitment in place from a seventh tenant for the remaining 4.6%, intended to house a restaurant. The Cherapa Facility is owned by Cherapa Place LLC, whose four members are 8th & ZIP, LLC, which owns 46%; River Partners, LLC, which owns 23%; CorTrust Community Development Corporation, which owns 23%; and Sanford Health, f/k/a Sioux Valley Hospitals & Health System, which owns 8%. Affiliates of these members lease 89% of the total leasable space, with Howalt-McDowell Insurance, Inc. (affiliated with 8th & ZIP, LLC) leasing 22.1%, Risk Administration Services, Inc. (affiliated with River Partners, LLC) leasing 22.7%, CorTrust Bank, N.A. (affiliated with CorTrust Community Development Corporation) leasing 19.9% and Sanford Health Plan, f/k/a Sioux Valley Health Plan (affiliated with Sanford Health) leasing 24.3%. Each of these tenants has signed a 10-year lease with four five-year renewal options. The other two tenants, Morgan Stanley & Co. Inc. and Sencore, Inc. and its Assigns, have each entered into a five-year lease with two five-year renewal options.

The completion of the Cherapa Facility is projected to increase the total estimated assessed value of the Tax Increment District by \$14,603,355. The City anticipates that the increases in the assessed value attributable to the Cherapa Facility will be sufficient, without regard to the development of buildings two or three in the Tax Increment District or other development in the Tax Increment District, to produce Tax Increment Revenues to pay the principal, premium, if any, and interest on the Series 2008A Bonds.

ASSESSED VALUE, TAX INCREMENT REVENUES AND DEBT SERVICE COVERAGE

The following table presents projected increases in the assessed valuation of the Tax Increment District attributable to the Cherapa Facility only and the Tax Increment Revenues resulting therefrom, assuming no further increases in assessed valuation. Estimates set forth below are estimates only and may not be relied upon as factual.

Fiscal Year	Estimated Taxable Value ¹	Tax Increment Base ²	Projected Increase (over) Base	Projected Tax Increment Revenues ³
2009	\$ 14,129,619	\$ 410,264	\$ 13,719,355	
2010	15,013,619	410,264	14,603,355	\$ 61,360.38
2011	15,013,619	410,264	14,603,355	122,720.75
2012	15,013,619	410,264	14,603,355	184,081.13
2013	15,013,619	410,264	14,603,355	245,441.50
2014 and thereafter	15,013,619	410,264	14,603,355	306,801.88

¹ This column shows the estimated taxable value in the Tax Increment District of the Cherapa Facility. The assessed values figure for fiscal year 2009 and the estimate for fiscal year 2010 and thereafter were provided by Minnehaha County director of Equalization and then reduced by the fiscal 2008 equalization factors to obtain the estimated taxable value. For more information about the Cherapa Facility, see "THE PROJECT PLAN—The Cherapa Facility" herein.

² This column shows the Tax Increment Base as certified by the South Dakota Department of Revenue of \$410,464.

³ The projected Tax Increment Revenues were produced by applying the actual tax year 2007 levy for the property in the Tax Increment District (\$0.021009) and factoring in the abatement of 0%, 20%, 40%, 80% and 100%. See "SOUTH DAKOTA PROPERTY TAX SYSTEM."

Debt Service Coverage

The following table presents an estimate of debt service coverage for the Series 2008A Bonds, based on the adjusted assessed values shown in the preceding table.

Year Ending (January 15)	Projected Tax Increment Revenues ⁴	Projected Reserve Account Earnings ⁵	Capitalized Interest from Bond Proceeds	Total Revenues ⁶	Annual Debt Service ⁷	Pro Forma Debt Service Coverage ⁸
2009	\$ 18,000.00	\$ 6,700.67	\$ 115,955.94	\$ 140,656.61	\$ 115,955.94	1.21x
2010	29,261.29	6,344.82	120,997.50	156,603.61	120,997.50	1.29x
2011	84,769.41	5,966.35	120,997.50	211,733.26	145,997.50	1.45x
2012	140,277.53	6,144.45	55,332.18	201,754.16	139,997.50	1.44x
2013	195,785.64	6,689.88		202,475.52	139,197.50	1.45x
2014	251,293.76	7,112.87		258,406.63	178,397.50	1.45x
2015	306,801.88	7,446.80		314,248.68	220,997.50	1.42x
2016	306,801.88	7,780.74		314,582.62	216,587.50	1.45x
2017	306,801.88	8,092.42		314,894.30	217,177.50	1.45x
2018	306,801.88	8,381.84		315,183.72	217,447.50	1.45x
2019	306,801.88	8,526.54		315,328.42	217,675.00	1.45x
2020	306,801.88	8,815.96		315,617.84	217,575.00	1.45x
2021	306,801.88	9,060.84		315,862.72	220,387.50	1.43x
2022	306,801.88	9,283.46		316,085.34	222,625.00	1.42x
2023	306,801.88	9,439.30		316,241.18	219,287.50	1.44x
2024	306,801.88	9,550.62		316,352.50	220,662.50	1.43x
2025	306,801.88	9,617.40		316,419.28	221,462.50	1.43x

⁴ Calculated in previous table.

⁵ Assumes projected annual earnings on the Reserve Account of 3.58% and in 2028, the application of monies in the Reserve Account.

⁶ Total of columns two, three and four.

⁷ Based on the principal payments and an assumed average interest rate of 5.48% on the Series 2008A Bonds.

⁸ Ratio of Total Revenue to Annual Debt Service on the Series 2008A Bonds, as shown in their respective columns.

2026	306,801.88	9,661.92	316,463.80	221,687.50	1.43x
2027	306,801.88	9,684.18	316,486.06	221,337.50	1.43x
2028	306,801.88	232,331.46	539,133.34	375,412.50	1.44x

BONDHOLDERS' RISKS

An investment in the Series 2008A Bonds involves risks. This section discusses some of these risks but is not intended to be a comprehensive listing of all risks associated with an investment in the Series 2008A Bonds. Any purchaser of the Series 2008A Bonds should give careful consideration to the matters referred to in the following summary as well as to other information set forth in this Official Statement.

In general, the Tax Increment Revenues arise from application of the combined levy for all local property taxing jurisdictions in which the Tax Increment District is located to the assessed value of the property in the Tax Increment District. A reduction in assessed values below projected levels could result in the amount of the Tax Increment Revenues being less than projected. In addition, the levy could be reduced from the historic and estimated levels due to changes in the tax levy by the City or other relevant taxing jurisdictions. Such reduction could arise from reduced revenue needs of the taxing jurisdictions, which in turn could arise from, among other things, (1) changes in the manner or amount in which various funds and revenues are available to such jurisdictions pursuant to state or federal laws or from other sources, (2) reduction in the level of services, activities or indebtedness which a taxing jurisdiction maintains or incurs, (3) changes in the financial condition of such jurisdictions, and (4) reductions in applicable legal tax levy limits for a taxing authority. Additionally, levies could be reduced due to an increase in the overall assessed value within a taxing jurisdiction.

The following table shows the history of tax levies for the last seven (7) years for commercial property in the Tax Increment District.

Commercial Property Levy Tax Rates in the Tax Increment District

Payable Fiscal Year	City	County	School	Water Conservancy	Total Rate
2008	4.318	2.862	13.800	0.029	21.009
2007	4.41	2.786	15.110	0.031	22.337
2006	4.49	2.687	16.070	0.033	23.280
2005	4.50	2.705	16.620	0.037	23.862
2004	4.54	2.717	17.290	0.035	24.582
2003	4.54	2.758	18.270	0.038	25.606
2002	4.54	2.774	18.420	0.027	25.761

Property Tax Levies and Collections

Real estate tax collections¹ in the City for the last ten years have been as follows:

Payable Fiscal Year ⁽¹⁾	General Fund Taxes Levied	Total General	
		Fund Taxes Collected	Percent Collected
2007	\$ 35,104,133	\$ 34,456,969	98.2%
2006	32,584,086	31,890,255	97.9
2005	30,248,000	29,663,404	98.1
2004	28,418,966	27,870,796	98.1
2003	26,479,327	26,073,386	98.5
2002	24,465,450	23,851,889	97.5
2001	22,404,631	21,867,709	97.6
2000	20,794,314	20,490,305	98.5
1999	19,458,848	19,453,612	99.9
1998	18,305,925	17,955,793	98.1

¹ Tax collections do not include mobile home taxes, payments in lieu of taxes, tax increment financing, refunds, additions and abatements One-half payable by May 1 and one-half payable by November 1.

Source: Minnehaha County Auditor.

Risk of Destruction

The availability of Tax Increment Revenues is dependent upon the payment of taxes related to the Cherapa Facility and other, future development (if any). In the event that the Cherapa Facility is destroyed and must be rebuilt, the property value could be substantially diminished, resulting in reduced taxes and a potentially substantial reduction or elimination of the Tax Increment Revenues. In such an event, because the Series 2008A Bonds are payable solely from Tax Increment Revenues, payments on the Series 2008A Bonds would also be reduced or eliminated.

Absence of Rating

An investment in the Series 2008A Bonds involves a high degree of risk. No credit rating has been applied for or received for the Series 2008A Bonds. Typically, unrated bonds lack liquidity in the secondary market in comparison with rated bonds. As a result of the foregoing, the Series 2008A Bonds are believed to bear interest at higher rates than would prevail for bonds with comparable maturities and redemption provisions that have investment grade credit ratings. Nevertheless, the Series 2008A Bonds should not be purchased by any investor who, because of financial condition, is unable to bear a loss on an investment in the Series 2008A Bonds, or who, because of investment policies or otherwise, does not desire to assume, or have the ability to bear, the high degree of risk inherent in an investment in the Series 2008A Bonds.

Failure to Pay Real Estate Taxes

The amount of Tax Increment Revenues available for payment of principal of and interest on the Series 2008A Bonds may also be reduced due to the failure of the owner of any taxable property in the Tax Increment District to pay property taxes when due. A listing of the ten largest taxpayers in the City is set forth in APPENDIX A.

SOURCES AND USES OF FUNDS

The proceeds of the Series 2008A Bonds will be used (i) to pay the costs listed in the Project Plan for Tax Increment District Number Five, City of Sioux Falls, as amended (the "Project Plan"), (ii) capitalized interest on the Series 2008A Bonds, and related expenses, including costs of issuance (collectively, the "Project Costs"); and (iii) to fund a debt service reserve fund. The estimated sources for and uses of funds are as follows:

Sources:

Series 2008A Bonds	\$ 2,290,000.00
Original Issue Discount	<u>(28,601.45)</u>
Total Sources:	\$ <u>2,261,398.55</u>

Uses:

Project Plan Costs	1,568,094.82
Reserve Fund	222,625.00
Capitalized Interest	390,378.73
Costs of Issuance (incl. Underwriters Discount)	\$ 80,300.00
Total Uses:	\$ <u>2,261,398.55</u>

THE SERIES 2008A BONDS

Interest Rates; Maturity Dates and Payment

The Series 2008A Bonds are being issued in the aggregate principal amount of \$2,290,000 and will mature as set forth on the cover hereof. All Series 2008A Bonds will bear interest at the rates set forth on the cover hereof, payable semiannually on July 15 and January 15 (each an "Interest Payment Date") of each year commencing July 15, 2008. Interest will be calculated on the basis of a 360 day year with twelve months of thirty days.

The Series 2008A Bonds will be issued as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof. Principal, redemption price and interest will be payable to the beneficial owners of the Series 2008A Bonds through the facilities of DTC for so long as the book-entry system is in effect. See "APPENDIX D—Book-Entry Only System" herein. In the event that the book-entry system is discontinued for the Series 2008A Bonds: (i) the principal and redemption price of the Series 2008A Bonds will be payable at the principal corporate office of the Trustee; and (ii) interest shall be payable by check or draft mailed on the Interest Payment Date to the persons who were registered owners thereof as of the first day of the month in which the Interest Payment Date occurs. If any payment of interest or principal is due on a day that is not a business day, payment is required to be made on the next succeeding business day with the same effect as if paid when otherwise due.

Optional Redemption

Series 2008A Bonds maturing on and after January 15, 2017, are subject to optional redemption and prepayment at the option of the City upon request by the City to the Trustee, on January 15, 2016, and any date thereafter, in whole or in part, in such order of maturities as the City may designate, and if in part within a maturity, then by lot, at a redemption price equal to the principal amount to be redeemed, plus accrued interest.

Mandatory Redemption of Term Bonds

The Series 2008A Bonds maturing on January 15, 2014, 2016 and 2028 (the “Series 2008A Term Bonds”), shall be subject to mandatory redemption prior to maturity pursuant to the sinking fund requirements of the bond ordinance adopted by the City Council on December 17, 2007 at a redemption price equal to the stated principal amount thereof plus interest accrued thereon to the redemption date, without premium. The Trustee shall select for redemption, by lot or other manner deemed fair, on January 15 in each of the following years the following stated principal amounts of Series 2008A Term Bonds:

Series 2008A Term Bonds Maturing in 2014

Sinking Fund Redemption Date (January 15)	Principal Amount
2011	\$ 25,000
2012	20,000
2013	20,000
2014 (maturity)	60,000

Series 2008A Term Bonds Maturing in 2016

Sinking Fund Redemption Date (January 15)	Principal Amount
2015	\$ 105,000
2016 (maturity)	105,000

Series 2008A Term Bonds Maturing in 2028

Sinking Fund Redemption Date (January 15)	Principal Amount
2020	\$ 125,000
2021	135,000
2022	145,000
2023	150,000
2024	160,000
2025	170,000
2026	180,000
2027	190,000
2028 (maturity)	355,000

Exchange and Transfer

The Series 2008A Bonds are transferable and exchangeable for other denominations only upon the books of the Trustee and only upon presentation and surrender of such Series 2008A Bonds, together with an executed assignment or other acceptable transfer instrument, subject to the payment of any cost, tax or charge that may be imposed in connection therewith. Series 2008A Bonds called for redemption are not required to be transferred or exchanged.

Replacement

If any Series 2008A Bond is mutilated, lost, stolen or destroyed, the City shall execute and the operations agent of the Trustee shall authenticate and deliver, subject to the provisions of the Indenture, a new Series 2008A Bond of like date and denomination. In the case of a lost, stolen or destroyed Series 2008A Bond, the City and the Trustee may require satisfactory indemnification. In the case of a mutilated Series 2008A Bond, such mutilated Series 2008A Bond shall first be surrendered to the Trustee. For every such exchange of Series 2008A Bonds, the Trustee may charge the owner of such Series 2008A Bond the Trustee's reasonable fees and expenses with respect to the exchange.

Notice of Redemption

With respect to any redemption, the City is required to cause notice of the redemption to be mailed to the registered owner of each Series 2008A Bond to be redeemed (whether in whole or in part), by first class mail, not less than 30 days prior to the redemption date with a copy of such notice to be mailed to the Paying Agent. Failure to give, or any defect in any mailed notice, shall not affect the validity of any proceedings for the redemption of any Series 2008A Bonds not affected thereby. In the case of redemption of less than all of the outstanding Series 2008A Bonds, Series 2008A Bonds to be redeemed shall be selected by the Trustee by lot, (or by the bond depository in accordance with its customary procedures) in such manner as the Trustee in its discretion may determine.

Additional Bonds

The conditions for issuance of Additional Bonds under the Indenture are as follows:

(a) No additional bonds shall be issued, be made payable from Tax Increment Revenues or the Tax Increment Fund which are prior to or superior to the lien of the Bonds authorized in the Indenture.

(b) Nothing in the Indenture shall be construed in such manner as to prevent the issuance by the City of additional bonds payable from the Tax Increment Revenues and constituting a lien upon the Tax Increment Revenues and the Tax Increment Fund equal to or on a parity with the lien of the Bonds authorized in the Indenture (such additional bonds being referred to herein as "Additional Bonds"), provided (i) the City is current in the payment of principal and interest on the Outstanding Bonds and is current in the accumulations required for the Principal and Interest Account, (ii) the City is in compliance with the covenants contained in the Indenture, and (iii) the Tax Increment Revenues collected by the City will be sufficient to cover 1.50 times the maximum annual principal and interest requirements over the entire term on the Outstanding Bonds, and the proposed parity lien bonds (the calculation shall deduct the amount in the Reserve

Account from the principal and interest requirement in the final year in which the Bonds are outstanding).

Subordinate Lien Obligations; Expenses of the Tax Increment District

The Indenture permits the City to issue revenue bonds or other obligations secured by a pledge of the Tax Increment Revenues if such revenue bonds or other obligations and the lien thereon of the Tax Increment Revenues is junior and subordinate to the lien on the Series 2008A Bonds. The City may incur expenses in connection with the Tax Increment District which shall be reimbursed through the Tax Increment Revenues. Said obligations shall be junior and subordinate to the Bonds whether evidenced by an accounting notation or instrument of indebtedness.

SECURITY FOR THE SERIES 2008A BONDS

The Series 2008A Bonds are limited obligations of the City and payments of principal, premium, if any, and interest related to the Series 2008A Bonds are secured solely by a pledge of the collections of the Tax Increment Revenues and certain other amounts held under the Indenture by the Trustee. See "TAX INCREMENT DISTRICT NUMBER FIVE" and "THE ACT — Calculation of Tax Increment Revenues." The governing body of the City is not obligated to appropriate funds other than Tax Increment Revenues to cure a deficiency. The Series 2008A Bonds are not general obligations of the City and the City's full faith and credit and taxing powers are not pledged to the payment thereof. The City is not obligated to levy any ad valorem taxes nor to expend any moneys of the City to pay the Series 2008A Bonds, except the revenues specifically pledged under the Indenture.

Reserve Account

Pursuant to the Indenture, the City will establish and is required to maintain a Reserve Account for the benefit of the Series 2008A Bonds in an amount equal to the Debt Service Reserve Requirement. See "THE INDENTURE—Reserve Account" herein.

THE ACT

The following is a summary of certain provisions of South Dakota Codified Laws Chapter 11-9 (the "Act").

Establishment of a District

Under the Act, any municipality, including an incorporated city or county, may create a tax increment district by adoption of a resolution or ordinance describing the boundaries of a contiguous geographic area constituting the district and prescribing a date for such creation. The governing body may consider adoption of such resolution or ordinance only after the planning commission of the municipality has conducted a public hearing on the creation of the proposed district, following published notice and mailed notice to the taxing jurisdictions having power to levy taxes on property within the proposed district, and has made recommendations to the governing body as to the boundaries of the district.

The tax increment district may not be created if the aggregate assessed value of the taxable property in the district and in all other tax increment districts within the municipality exceeds ten percent of the total assessed value of taxable property in the City. In addition, the

Act requires that not less than twenty-five percent, by area, of the real property within the proposed district be a "blighted area" within the meaning of the Act, and that the improvement of the area is likely to enhance significantly the value of substantially all of the other real property in the proposed tax increment district.

A municipality may not undertake any redevelopment activities within the district until the planning commission has prepared and adopted a project plan for the tax increment district and submitted the plan to the governing body of the municipality for approval. Among the items that the tax increment plan must include are a statement of the kind, number and location of all proposed public works or improvements within the district; an economic feasibility study; a fiscal impact statement showing the impact of the district on jurisdictions levying property taxes within the proposed district; and a description of the methods of financing all estimated project costs and the time when such costs or monetary obligations are to be incurred. The governing body must approve the project plan by resolution or ordinance, and must find that the plan is feasible and in conformity with the master plan, if any, of the municipality.

Municipalities are authorized by the Act to implement the provisions and purposes of a project plan. A project plan may contemplate the acquisition by purchase or condemnation of real and personal property within the tax increment district, the improvement thereof and the sale, lease or other disposition of such property to private entities at a price less than the cost of such acquisition and improvement, and the issuance of tax increment bonds and notes. A municipality may also determine to create a reserve fund for any tax increment bonds or notes it may issue, and pay interest on such tax increment bonds or notes from the proceeds thereof until positive tax increment revenues are available therefor.

The primary source of financing for activities undertaken by the municipality pursuant to a project plan or the source of funds to pay debt service on tax increment bonds or notes, the proceeds of which have been used to pay such project costs, are positive tax increment revenues derived from the tax increment district. The increment that is the basis of tax increment financing under the Act is the increase in the aggregate assessed value of all taxable property located within the tax increment district since the date the district is created.

Calculation of Tax Increment Revenues

The tax increment revenues for any given year are the amount obtained by multiplying the total county, city, school and other local general property taxes levied on all taxable property within the tax increment district by a fraction having a numerator equal to that year's assessed value of all taxable property in the district minus the tax increment base, and having a denominator equal to that year's assessed value of all taxable property in the district. The tax increment base for a tax increment district is the aggregate assessed value of all taxable property located within the district on the date the district is created. The South Dakota Department of Revenue determines the tax increment base, upon application by the finance officer.

When the tax increment base is less than the current aggregate assessed value of taxable property in the tax increment district, the tax increment revenues are "positive," and are to be paid to the municipality on the next settlement date provided by law. A municipality is entitled to receive positive tax increment revenues until the earlier of (1) the receipt of aggregate tax increment revenues equal to all expenditures previously made or monetary obligations previously incurred for project costs in the tax increment district, or (2) 15 years after the last expenditure identified in the project plan has been made or until all outstanding tax increment

bonds or notes issued pursuant to South Dakota Codified Laws, Section 11-9-35, have matured. The municipality is required to deposit positive tax increment revenues in a special fund for the tax increment district. Moneys in the special fund may be applied only to payment of project costs of the district, or to payment of principal of or interest on tax increment bonds or notes issued with respect to the district.

The Act authorizes the governing body of the municipality to issue tax increment bonds or notes payable solely out of positive tax increment revenues to be derived from the tax increment district. The bonds or notes may be authorized by ordinance of the governing body without a referendum. Such obligations are payable only from the special fund of the district and do not constitute a general indebtedness of the municipality or charge against its general taxing power. To secure the bonds or notes, the municipality must create a lien for the benefit of the bondholders upon part or all of the special fund of the tax increment district.

Section 11-9-39.1 of the Act provides that:

The state of South Dakota does hereby pledge to and agree with the holders of any [tax increment bonds or notes issued under Chapter 11-9] that the state will not alter the rights vested in the bond holders until such notes or bonds, together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of any such holders, are fully met or discharged.

SOUTH DAKOTA PROPERTY TAX SYSTEM

In South Dakota, the collection of all property tax revenues is handled by the County governments. Each County is required to conduct an annual assessment of all real property located in the County. State law requires that all property be assessed at its full and true value as of the November 1 immediately preceding the assessment year. In the aggregate, taxable property is valued within a range of 85% to 100% of market value using the preceding year's sales as a benchmark. Property owners must be notified of the assessed value of their properties, and a property owner who desires to challenge the assessment may appeal to the appropriate Board of Equalization. South Dakota law creates local Boards of Equalization, the purpose of which are to equalize the assessed value of all properties and to see that all taxable property has been properly placed on the assessment roles and has been properly valued. The County Commission, sitting as a Board of Equalization, is the final local authority for hearing property owner appeals and equalizing the assessments of property, subject to a property owner's right to appeal the assessment to the Office of Hearing Examiners or to the Circuit Court. Each County's equalization proceedings for its annual assessment must be completed by the third week of May. South Dakota Codified Laws, Section 10-13-35, provides that, for levy years commencing in 1996, property taxes are to be levied on valuations where the median level of assessment represents 85% of the market value as determined by the Department of Revenue. The necessary adjustment provided by the Department of Revenue is the "equalization factor" herein and the adjusted value so determined is referred to herein as the "taxable value."

Real property taxes become due on January 1 of the year following the year in which the tax levy is made. Real property taxes become delinquent if not paid 50% by May 1 and the remaining 50% by November 1. Once levied, taxes become a perpetual lien upon the subject real property until paid. All property tax payments, after being collected by the County Treasurer, are turned over to the respective taxing districts.

South Dakota law allows the City to abate part or all of the assessed value of new buildings and additions for a five-year period following construction. The City has adopted an ordinance providing for an abatement formula that all new industrial or commercial structures, or additions to existing structures, or renovation or reconstruction of existing structures, which new structures or additions or renovation or reconstruction have a full and true value of \$50,000 or more, added to the real property and located within the city downtown center-designated urban renewal area shall be taxed pursuant to the following formula during the five tax years subsequent to the completion of construction:

(1) The full and true value of such structures, additions, renovation or reconstruction shall be determined in the usual manner by the director of equalization.

(2) For the first tax year following construction, no portion of the taxable value shall be used for taxation purposes.

(3) For the second tax year following construction, 20 percent of the taxable value shall be used for taxation purposes.

(4) For the third tax year following construction, 40 percent of the taxable value shall be used for taxation purposes.

(5) For the fourth tax year following construction, 60 percent of the taxable value shall be used for taxation purposes.

(6) For the fifth tax year following construction, 80 percent of the taxable value shall be used for taxation purposes.

The taxable value of such structures, additions, renovation or reconstruction during any of the five tax years subsequent to the completion of their construction may not be less than their taxable value in the year preceding the first year of the tax years following construction. For the sixth and all subsequent tax years following construction, such structures, additions, renovation or reconstruction shall be taxed in the same manner as all other similar industrial or commercial property within the City.

This abatement formula applies to property in the Tax Increment District and has been used in calculating the projected assessed value and tax increment tables in this Official Statement. See "PROJECTED ASSESSED VALUE, TAX INCREMENT REVENUES AND DEBT SERVICE COVERAGE" herein.

The tax levy for political subdivisions, including cities and counties, have statutory levy limitations. Section 10-13-35 of South Dakota Codified Laws provides that the total amount of revenue derived from property taxes for city and county purposes may increase over the prior year's revenues by the smaller of three percent or the CPI inflation index. Increases in revenues from additions, improvements or change in use of real property are permitted, as well as increased revenues resulting from annexations, reorganizations and certain other limited circumstances. The revenue limitations may be exceeded by an excess tax levy imposed by a two-thirds vote of the governing body of the respective entity, subject to a referendum by the electors of the respective entity.

Under South Dakota law, school districts are permitted to make up to three separate property tax levies subject to levy limitation including a General Fund Levy, Capital Outlay

Fund Levy and Special Education Fund Levy. School districts may also make a General Obligation Bond Levy which is not subject to levy limitation.

Section 10-12-43 of South Dakota Codified Laws provides that the above General Fund Levy for school districts can be exceeded only by an excess levy imposed by an affirmative two-thirds vote of the governing body of the school district and subject to a referendum by the electors of the school district, if petitioned by at least five percent of the registered voters in the school district.

THE INDENTURE

Following is a summary of certain provisions of the Indenture:

Account held by the City

Tax Increment Fund. A fund designated as the Tax Increment District Number Five Fund (the "Tax Increment Fund") has been established and shall be maintained as a separate and special bookkeeping account on the official books of the City until the Series 2008A Bonds and any Additional Bonds (together referred to as the "Bonds") payable from the Tax Increment Revenues have been fully paid, or the City's obligation with reference to the Bonds has been discharged as provided in the Indenture.

Accounts held by the Trustee

Various separate accounts are created and established by the Trustee as Trust Funds for the benefit of the Bondholders under the Indenture, as follows:

Construction Fund. To the Construction Fund shall be credited as received all proceeds of Bonds issued to finance the Project Costs. All income received from the investment of the Construction Fund shall be transferred to the Principal and Interest Account until the Construction Fund is closed upon completion of the Project, at which time any remaining balance in the Construction Fund shall be transferred to the Principal and Interest Account and used to redeem Series 2008A Bonds on the earliest optional redemption date in accordance with the Indenture.

Principal and Interest Account. An initial deposit to the credit of the Principal and Interest Account is to be made for capitalized interest under the provisions of the Indenture. Periodically, as needed, Tax Increment Revenues received by the City shall be credited to the Principal and Interest Account in an amount sufficient to pay all principal and interest when due on the Bonds.

Reserve Account. There shall be credited to the Reserve Account from the proceeds of the Series 2008A Bonds, an amount equal to the Reserve Requirement. Thereafter, in the event that the amount on deposit in the Reserve Account shall fall below the Reserve Requirement, additional deposits shall be made from the Tax Increment Revenues, after the requirements of the Principal and Interest Account have been satisfied, to the Reserve Account until the Reserve Requirement is again reached. Moneys on hand in the Reserve Account shall be used only to pay maturing principal and interest when other moneys in the Principal and Interest Account are insufficient therefore.

If additional bonds are issued the Reserve Requirement shall mean, as of the date of reference, an amount equal to the lesser of: (i) 10% of the original principal amount of the Bonds, (ii) 125% of the average annual debt service payments on the Bonds or (iii) the maximum annual debt service payable on the Bonds.

Investments. The City shall invest money in the Tax Increment Fund as permitted by South Dakota Codified Law. No moneys shall at any time be withdrawn from such deposit accounts except for the purposes of the Tax Increment Fund as authorized in the Indenture.

Any moneys deposited with, or paid to, the Trustee under any provision of the Indenture shall, at the direction of the City, or in the absence of such direction at the initiative of the Trustee, be invested and reinvested by the Trustee in Permitted Investments as defined in the Indenture. The Trustee will not make any investments which would cause any of the Series 2008A Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended (the "Code") or "federally guaranteed" within the meaning of Section 149 of the Code.

TAX MATTERS

In the opinion of Lindquist & Vennum P.L.L.P., Bond Counsel, under federal and State of South Dakota laws, regulations, rulings and decisions in effect on the date of the issuance of the Series 2008A Bonds interest on the Series 2008A Bonds is not includable in gross income for federal income tax purposes. Interest on the Series 2008A Bonds is includable in gross income for South Dakota income tax purposes when the owner is a financial institution as defined in South Dakota Codified Laws, Chapter 10-43.

The Internal Revenue Code of 1986, as amended (the "Code") imposes continuing requirements that must be met after the issuance of the Series 2008A Bonds in order for interest thereon to be and remain not includable in gross income for purposes of federal income taxation. Noncompliance with such requirements may cause the interest on the Series 2008A Bonds to be includable in gross income for purposes of federal income taxation, either prospectively or retroactively to the date of issuance of the Series 2008A Bonds. These requirements include, but are not limited to, provisions requiring that certain investment earnings must be rebated on a periodic basis to the Treasury Department of the United States.

Interest on the Series 2008A Bonds is not an item of tax preference which is included in "alternative minimum taxable income" for purposes of the federal alternative minimum tax applicable to all taxpayers, including individuals, under Section 55 of the Code, but such interest is includable in adjusted current earnings for purposes of determining the "alternative minimum taxable income" of corporations. Interest on the Series 2008A Bonds may be included in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code and is includable in net investment income of foreign insurance companies for purposes of Section 842(b) of the Code. Interest on the Series 2008A Bonds may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits.

For individuals who are or may become recipients of social security benefits (including railroad retirement benefits), interest on the Series 2008A Bonds is includable in computing "modified adjusted gross income" for purposes of determining the amount of social security benefits, if any, that is required to be included in gross income under Section 86 of the Code.

In the case of an insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as "losses incurred" under Section 832(b)(5) of the Code is reduced by an amount equal to fifteen percent of the interest on the Series 2008A Bonds that is received or accrued during the taxable year.

The foregoing discussion of the collateral federal tax consequences which may arise from the receipt of interest on the Series 2008A Bonds is not intended to be comprehensive. All prospective purchasers of the Series 2008A Bonds should consult their tax advisors as to the tax consequences of, purchasing or holding the Series 2008A Bonds.

Original Issue Discount

The initial public offering price of the Series 2008A Bonds maturing in the years 2014, 2016 and 2028 (the "Discounted Bonds") is less than the principal amount payable thereon at maturity. As a result, the Discounted Bonds will be considered to be issued with original issue discount. The difference between the initial public offering price of each maturity of the Discounted Bonds as set forth on the cover page of this Official Statement (assuming it is the first price during the initial offering (the "Issue Price") at which a substantial amount of such maturity is sold to the public), and the principal amount payable at maturity of the Discounted Bonds will be treated as "original issue discount." With respect to a taxpayer who purchases a Discounted Bond in the initial public offering at the Issue Price and who holds such Discounted Bond to maturity, the full amount of original issue discount will constitute interest which is not includable in the gross income of the owner of such Discounted Bond for federal income tax purposes and such owner will not, under present federal income tax law, realize taxable capital gain upon payment of such Discounted Bond upon maturity.

The original issue discount on each of the Discounted Bonds is treated as accruing daily over the term of such Discounted Bond on the basis of a constant interest rate compounded at the end of each six-month period (or shorter period from the date of original issue) ending on January 15 and July 15 (with straight line interpolation between compounding dates).

Section 1288 of the Code provides, with respect to tax-exempt obligations such as the Discounted Bonds, that the amount of original issue discount accruing each period will be added to the owner's tax basis for the Discounted Bonds. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discounted Bonds (including sale, redemption or payment at maturity). An owner of a Discounted Bond who disposes of such Discounted Bond prior to maturity should consult such owner's tax advisor as to the amount of original issue discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discounted Bond prior to maturity.

As described above regarding tax-exempt interest, a portion of the original issue discount that accrues in each year to an owner of a Discounted Bond may result in certain collateral federal income tax consequences. In the case of a corporation, such portion of the original issue discount will be included in the calculation of the corporation's alternative minimum tax liability and the branch profits tax liability. Corporate owners of any Discounted Bonds should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability or a branch profits tax liability although the owners of such Discounted Bonds will not receive a corresponding cash payment until a later year.

Owners who purchase Discounted Bonds in the initial public offering but at a price different than the Issue Price should consult their own tax advisors with respect to the tax consequences of the ownership of the Discounted Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of subsequent purchasers of bonds such as the Discounted Bonds. Owners who do not purchase Discounted Bonds in the initial public offering should consult their own tax advisors with respect to the tax consequences of the ownership of the Discounted Bonds.

Owners of Discounted Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Discounted Bonds. It is possible that under the applicable provisions governing the determination of state or local income taxes, accrued original issue discount on the Discounted Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

ENFORCEABILITY OF OBLIGATIONS

On the closing date for delivery of the Series 2008A Bonds, Bond Counsel will deliver its opinion, dated the date thereof, that the Series 2008A Bonds are valid and legally binding obligations of the City enforceable in accordance with their terms. The foregoing opinion will be generally qualified to the extent that enforceability may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and to the exercise of judicial discretion in accordance with general principles of equity.

While the Series 2008A Bonds are secured or payable pursuant to the Indenture, practical realization of any security upon a default will depend upon the exercise of various remedies specified in the respective instruments. These and other remedies are dependent in many respects upon judicial action, which is subject to discretion and delay. Accordingly, the remedies specified by such instruments may not be readily available or may be limited.

UNDERWRITING

The Series 2008A Bonds are being purchased from the City by Dougherty & Company, LLC (the "Underwriter"). The Underwriter has agreed to purchase the Series 2008A Bonds from the City at an aggregate purchase price of \$2,215,598.55, subject to the terms of a Bond Purchase Agreement between the City and the Underwriter. The Bond Purchase Agreement provides that the Underwriter shall purchase all of the Series 2008A Bonds if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions. The initial public offering prices set forth on the cover page hereof may be changed from time to time by the Underwriter. The City has agreed under the Bond Purchase Agreement to indemnify the Underwriter against certain liabilities, including liabilities under the federal and state securities laws.

CONTINUING DISCLOSURE

In order to permit bidders for the Series 2008A Bonds and other participating underwriters in the primary offering of the Series 2008A Bonds to comply with paragraph (b)(5) of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Rule"), the City will covenant and agree, for the benefit of the registered holders or beneficial owners from time to time of the outstanding Series 2008A

Bonds, in the Indenture and in a Continuing Disclosure Agreement, to provide annual reports of specified information and notice of the occurrence of certain events, if material, as hereinafter described (the “Disclosure Covenants”). The information to be provided on an annual basis, the events as to which notice is to be given, if material, and a summary of other provisions of the Disclosure Covenants, including termination, amendment and remedies, are set forth in Appendix E to this Official Statement.

Breach of the Disclosure Covenants will not constitute a default or an “Event of Default” under the Series 2008A Bonds or the Indenture or the Continuing Disclosure Agreement. A broker or dealer is to consider a known breach of the Disclosure Covenants, however, before recommending the purchase or sale of the Series 2008A Bonds in the secondary market. Thus, a failure on the part of the City to observe the Disclosure Covenants may adversely affect the transferability and liquidity of the Series 2008A Bonds and their market price.

MISCELLANEOUS

There is no controversy or litigation of any nature now pending or, to the knowledge of the City, threatened, restraining or enjoining the issuance, sale, execution or delivery of the Series 2008A Bonds, the establishment or collection of the Tax Increment Revenues, or in any way contesting or affecting the validity of the Series 2008A Bonds, the establishment or collection of the Tax Increment Revenues, or any proceedings of the City taken with respect thereto.

The foregoing summaries do not purport to be comprehensive or definitive and all references to the documents summarized are qualified in their entirety by reference to each such document. All references to the Series 2008A Bonds are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the aforesaid documents. Copies of these documents are available for inspection during the period of the offering at the offices of the Underwriter in Minneapolis, Minnesota, and thereafter at the office of the City. All information contained in the Appendices to this Official Statement has been furnished by the City. The Underwriter makes no representations or warranties as to the accuracy or completeness of the information in such Appendices.

APPENDIX A –
SELECTED INFORMATION OF THE CITY

For more detailed information about the City, please go to www.siouxfalls.org.

Demographics

Set forth below are certain demographic statistics:

<u>Fiscal Year</u>	<u>City Population⁽¹⁾</u>	<u>Per Capita Personal Income⁽²⁾</u>	<u>School Enrollment⁽³⁾</u>	<u>Annual Average Unemployment Rate⁽²⁾</u>
2006	148,000	N/A	19,821	2.7%
2005	144,600	N/A	19,630	3.3
2004	141,000	\$34,234	20,337	3.4
2003	138,000	33,174	19,623	3.1
2002	134,600	32,128	19,478	2.8

Sources: ⁽¹⁾ City Planning Department end of year estimates.

⁽²⁾ South Dakota Department of Labor (for the Sioux Falls Metropolitan Statistical Area)

⁽³⁾ South Dakota Department of Education fall enrollment (for Sioux Falls Public Schools)

City Government

The City was incorporated in 1889 and currently operates under its home rule charter. The charter permits the City to exercise any legislative power or perform any legislative function not denied by its charter, the constitution, or the general laws of South Dakota. The City government is composed of a full-time strong mayor and a City Council of eight part-time council members, three to be elected at large and five elected from districts. The City Council acts as a policy-making and legislative body. The mayor is responsible for management and administration of the City.

City Council

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Dave Munson	Mayor	2010
Vernon Brown	Councilmember-At Large	2008
J. Pat Costello	Councilmember-At Large	2010
De Knudson	Councilmember-At Large	2010
Robert E. Jamison	Councilmember-Southwest District	2008
Kevin Kavanaugh	Councilmember-Northeast District	2008
Robert Litz	Councilmember-Northwest District	2008
Gerald Beninga	Councilmember-Southeast District	2010
Kermit Staggers	Councilmember-Central District	2010

City Officials

Eugene Rowenhorst
Gary Colwill

Director of Finance
City Attorney

Appointed
Appointed

City Services

Protective Services are provided by a Police Department employing 254, which operates 66 vehicular patrol units. The City's Fire Department consists of 193 employees operating from 9 fire stations with 18 pieces of motorized firefighting equipment. The City also provides water, sanitary sewer and storm sewer services, solid waste disposal facilities, airport facilities and a transit system and operates a comprehensive public recreation program.

City Property Tax Values

The following table illustrates the historical taxable value of real property for the City (excluding tax increment districts):

Fiscal		Total	
Year <u>Payable</u>	Taxable <u>Value</u>	Utilities	<u>Taxable Value</u>
2007	\$7,901,458,319	\$ 152,668,331	\$ 8,054,126,650
2006	7,217,883,831	165,008,254	7,382,892,085
2005	6,568,757,110	168,269,207	6,737,026,317
2004	6,141,344,172	168,373,066	6,309,717,238
2003	5,680,862,933	152,218,541	5,833,081,474
2002	5,237,787,130	155,562,058	5,393,349,188
2001	4,804,349,360	141,485,183	4,945,834,543
2000	4,465,969,694	147,080,740	4,613,050,434

Source: Minnehaha and Lincoln Counties

Principal Property Taxpayers

<u>Taxpayer</u>	<u>Type of Business</u>	Tax Year 2003 <u>Assessed Value</u>	Percent <u>of Total</u>
SDG Macerich Properties LP	Retail Malls	\$ 108,281,677	1.32%
Sanford Health (Sioux Valley Hospital)	Medical	58,208,824	0.71
Wells Fargo Bank	Financial	40,041,848	0.49
123 Sioux Falls LLC (Citibank)	Financial	38,524,944	0.47
Don Dunham Jr.	Real Estate	38,489,363	0.47
Presentation Sisters (McKennan)	Medical	35,776,423	0.44
Wal-Mart (Wal-Mart & Sams)	Retail	32,818,200	0.40
John Morrell & Company	Meat Packing	27,252,732	0.33
Menards	Building Supplies	24,679,114	0.30
Ronning Enterprises	Real Estate	23,970,665	0.29

Source: Minnehaha County

Construction

Set forth below is data for building permits issued in the City for the past ten years:

<u>Fiscal Year</u>	<u>Number of Permits</u>	<u>Value</u>
2007	6,428	\$ 506,325,775
2006	6,419	441,811,983
2005	6,701	463,105,323
2004	6,902	396,937,153
2003	6,697	346,645,088
2002	7,723	280,340,362
2001	7,659	315,640,516
2000	5,968	353,528,860
1999	5,754	257,239,591
1998	5,291	250,084,939

Source: City of Sioux Falls

Ten Largest Employers in the City

<u>Name</u>	<u>Product/Service</u>	<u>Number of Employees</u>
Avera McKennan Health Services	Medical	7,300
Sanford Health fka Sioux Valley Hospital	Medical	6,995
Wells Fargo Bank	Financial	3,541
Citigroup	Financial	3,200
John Morrell & Co.	Meat Processing	3,200
Sioux Falls Public Schools	Education	3,000
HyVee Food Stores	Retail Grocery	2,033
First Premier Bank/Premier Bankcard Financial	Financial	1,291
Wal-Mart/Sam's Club	Retail	1,150
Evangelical Lutheran Good Samaritan Society	Nursing Home	1,047

Source: Sioux Falls Development Foundation

FINANCIAL INFORMATION

Financial Reports

Copies of the Audited Annual Financial Report of the City's funds for the years 2003-2005, and the 2006 and 2007 budgets are available at www.siouxfalls.org. See Note No. 1 in Appendix A for an explanation of methods used in reporting. Excerpts of the City's comprehensive financial report for the year ended December 31, 2006, are presented in Appendix B to the Official Statement. The City's accounts are audited annually by an independent certified public accountant. The City has received from the Government Finance Officers Association, its Certificate of Achievement for Excellence in Financial Reporting in each year since 1980, and its Distinguished Budget Presentation Award in each year since 1990.

Results of Operation

The General Fund is the primary operating fund for the City. Revenues and expenditures for the years 2004-2006 are outlined in the following table. Schedules of revenues and expenditures of various funds of the City have been compiled from information obtained in the City's financial statements and budget. They have been organized in such a manner as to facilitate year-to-year comparisons.

Statement of Revenues, Expenditures and Changes in Fund Balance - General Fund (Years Ending December 31)

	2006	2005	2004
Revenues			
Taxes	\$ 76,873,020	\$ 71,059,546	\$ 66,770,404
Licenses and permits	3,994,868	4,967,567	4,434,456
Intergovernmental revenues	6,800,111	6,866,364	7,816,186
Charges for goods and services	4,170,337	4,490,705	4,456,252
Fines and forfeits	1,147,628	1,256,988	1,007,510
Interest (Investment revenues)	2,798,696	1,367,970	694,799
Miscellaneous revenues	881,627	916,362	851,096
Total Revenues	\$ 96,666,287	\$ 90,925,502	\$ 86,030,703
Expenditures			
Current:			
General government	\$ 10,463,202	\$ 10,679,235	\$ 10,123,624
Public safety	37,739,072	34,362,530	32,142,269
Highways and streets	14,440,969	15,963,968	15,160,773
Health	6,571,869	6,254,196	6,086,350
Culture and recreation	16,848,972	14,823,418	13,839,799
Urban and economic development	4,603,141	4,408,913	4,061,607
Total Current Expenditures	\$ 90,667,225	\$ 86,492,260	\$ 81,414,422
Capital outlay	384,590	2,119,474	2,368,680
Debt service	61,354	61,734	61,414
Total Expenditures	\$ 91,113,169	\$ 88,673,468	\$ 83,844,516
Revenues Over (Under) Expenditures	\$ 5,553,118	\$ 2,252,034	\$ 2,186,187
Other Financing Sources (Uses):			
Sale of surplus property/damage recovery	90,355	84,030	88,918
Operating transfers in	430,777	80,275	403,032
Operating transfers out	(2,604,500)	(3,163,999)	(3,333,268)
Total Other Financing Sources (Uses)	(2,083,368)	(2,999,094)	(2,841,318)

Revenue and other sources over

	2006	2005	2004
(under) expenditures and other uses	3,469,750	(747,060)	(655,131)
Fund Balances January 1	\$ 27,038,869	\$ 27,785,929	\$ 28,441,060
Prior Period Adjustment	3,633,908	--	--
Adjusted Fund Balance January 1	30,672,777	27,785,929	28,441,060
Fund Balances (Deficit), December 31	<u>\$ 34,142,527</u>	<u>\$ 27,038,869</u>	<u>\$ 27,785,929</u>

Source: The 2006, 2005 and 2004 numbers were complied from the City's Comprehensive Annual Financial Report.

Budgetary Process

By August 1 in each year the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted at City Hall to encourage public input. The Council must, prior to September 30, enact the budget by ordinance. If the Council fails to approve a budget by September 30, the Mayor's proposed budget becomes the City's budget for the following fiscal year. After adoption, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted. If it is determined during the year that sufficient amounts have not been budgeted, the City Charter allows the adopting of supplemental appropriations.

FUTURE FINANCING OF THE CITY

The City has authorized the issuance of Sales Tax Bonds in an amount not to exceed \$5,000,000 plus cost of issuance and debt service reserve funds with the terms and subject to provisions as set forth in the Sales Tax Indenture, but the average interest rate yield on the Sales Tax Bonds shall not exceed 6.0 percent per annum and shall not mature later than 21 years from the date of issue which are payable from pledged revenues. The City intends to issue additional notes in connection with SRF loans payable from utility revenues in estimated amounts of \$22.7 million from water revenues and \$20.5 million from sewer revenues and \$7.0 million for BANS payable from Special Assessment Bonds in 2008.

CITY OBLIGATIONS

Set forth below are the current outstanding obligations (as of September 30, 2007) which the City is obligated or committed to pay:

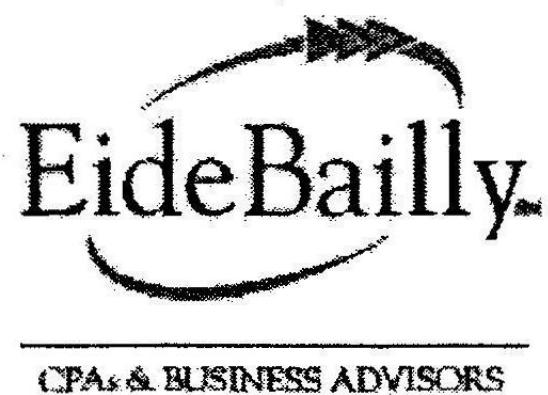
Type of Issue	Purpose	Original Issue Amount	Amount Outstanding (09/30/07)
Revenue Bonds & Notes			
Series 2001A Sales Tax Bonds	* Public Safety Construction	\$ 10,995,000	\$ 6,815,000
Series 2001B Sales Tax Bonds	* Partial Refunding (1993)	17,320,000	17,035,000
Series 2004 Sales Tax Bonds	* Partial Refunding (1993)	8,135,000	5,400,000
Series 2007A Sales Tax Bonds	* Lewis & Clark Rural Water System	70,000,000	70,000,000
Capital Leases 2005	Health Dept. Building	1,290,902	715,703
Series 2000 Parking Revenue Bonds	Parking Construction	5,075,000	3,320,000
2007 State Revolving Note SW #1	Landfill Improvements	1,800,000	1,800,000
Drinking Water			
State Revolving Note #1, 1999	System Construction	6,496,745	2,268,117
State Revolving Note #2, 2001	System Construction	2,348,168	1,420,027
State Revolving Note #3, 2002	System Construction	7,930,000	5,619,651
State Revolving Note #4, 2003	System Construction	279,599	218,278
State Revolving Note #5, 2004	System Construction	7,907,184	7,907,184
Clean Water			
State Revolving Note #1, 1990	* System Construction	2,836,963	848,485
State Revolving Note #13, 1997	System Construction	2,083,137	214,786
State Revolving Note #14, 2000	System Construction	4,431,766	2,596,872
State Revolving Note #15, 2002	System Construction	1,467,706	1,091,219
State Revolving Note #16, 2003	System Construction	2,322,456	1,935,883
State Revolving Note #17, 2003	System Construction	561,320	430,259
State Revolving Note #18, 2004	System Construction	3,386,440	3,386,440
State Revolving Note #19, 2004	System Construction	415,785	368,968
State Revolving Note #20, 2005	Storm Drainage Construction	25,281,522	25,281,522
State Revolving Note #21, 2005	System Construction	30,368,590	30,368,590
State Revolving Note #22, 2006	* Storm Drainage Construction	10,550,000	10,550,000
State Revolving Note #23, 2006 [†]	* System Construction	8,499,264	8,499,264
State Revolving Note #24, 2006	Landfill Improvements	188,676	188,678
			\$208,345,243

[†] Authorized for \$10,325,000, expected to be fully funded by the end of fiscal year 2007

* Secured by pledge of the second (.92%) penny sales and use tax.

In addition, the City has \$3,475,000 Sales Tax Revenue Bonds which are being paid from an Escrow Account established in connection with the refunding thereof, see the City Financial Statements included as Appendix B for further details.

APPENDIX B –
AUDITED FINANCIAL REPORT FOR 2006



Independent Auditor's Report on the Basic Financial Statements and Supplementary Information

**The Honorable Mayor and
Members of the City Council
City of Sioux Falls, South Dakota**

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Sioux Falls, South Dakota as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Sioux Falls. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The Housing and Redevelopment Commission, a discretely presented component unit, which represent 100 percent of the assets, net assets, and revenues of the aggregate discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Housing and Redevelopment Commission is based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditor provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of another auditor, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sioux Falls, South Dakota as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2007, on our consideration of the City of Sioux Falls' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison information, listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City of Sioux Falls. The introductory section, combining nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Sioux Falls. The combining nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Eide Bailly LLP

March 24, 2007
Sioux Falls, South Dakota

City of Sioux Falls
Comprehensive Annual Financial Report
December 31, 2006

Management's Discussion and Analysis

This discussion and analysis presents an overview of the financial activities and financial position for the City of Sioux Falls (the "City") for the year ended December 31, 2006. Please read and consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on page 3 of this report.

Financial Highlights

Government-wide Statements

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$931.0 million (net assets). Of this amount, \$71.8 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

Fund Financial Statements

- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$72.7 million, an increase of \$0.6 million in comparison with the prior year. Of this total amount, \$54.5 million is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$31.6 million, or 31.4 percent of the total general fund adjusted expenditure budget for the current fiscal year. Although the initial budget included the use of \$3.1 million in unreserved fund balance within the General Fund in 2006, actual results added \$3.5 million.

Long-term Debt

- The City's total outstanding debt increased by \$30.3 million ending the current fiscal year at \$121.9 million outstanding. Governmental fund debt increased by \$11.8 million as notes were issued to the South Dakota Conservancy District to fund storm drainage improvements. Debt within the business-type funds increased by \$18.5 million as water reclamation borrowed from the South Dakota Conservancy District for the expansion of the east side sanitary sewer system.
- Debt pledged against the City's second penny (.92) sales and use tax (Sales and Use Tax Fund) had a net decrease of \$1.9 million as the City made final payments on the 1996 A & B and 1999 bonds and added the pledge to two notes (SRF #22 and #23) for storm drainage and water reclamation improvements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial

statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, health, culture and recreation, and urban and economic development. The business-type activities of the City include the enterprise activities of the electric light, public parking, sanitary landfill, water, and water reclamation operations.

The government-wide financial statements include not only the City of Sioux Falls itself (known as the primary government), but also a legally separate housing and redevelopment authority for which the City is considered to be financially accountable or for which the nature and significance of their relationship with the City is such that the exclusion would cause the City's financial statements to be misleading or incomplete. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 24-26 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

City of Sioux Falls
Comprehensive Annual Financial Report
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Management's Discussion and Analysis

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 12 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Entertainment Tax Fund, Sales and Use Tax Fund, the Community Development Fund, and the Storm Drainage Fund, all of which are considered to be major funds. Data from the other seven governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements following the notes to the financial statements.

The City adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided as required supplementary information for the major governmental funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found beginning on page 27 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Sioux Falls uses enterprise funds to account for its electric light, public parking, sanitary landfill, water, and water reclamation operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The City uses internal service funds to account for its health, workers' compensation, and liability programs, fleet of vehicles and maintenance shop, and for its management of information systems equipment. All of these services predominantly benefit governmental rather than business-type functions; therefore, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the enterprise funds, all of which are considered to be major funds of the City. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements on pages 95-100 of this report.

The basic proprietary fund financial statements can be found beginning on page 35 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City's fiduciary funds consist of the two pension trust funds, the Employee's Retirement System and the Firefighters' Pension Fund. The basic fiduciary fund financial statements for these funds can be found on pages 41 and 42 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 43 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This section includes a budgetary comparison schedule and related notes for the General Fund and each major special revenue fund, as well as information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 69-77 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information.

City of Sioux Falls
Comprehensive Annual Financial Report
December 31, 2006

Management's Discussion and Analysis

Government-wide Financial Analysis

Net assets. As presented in the following table, the City's assets exceeded liabilities by \$931.0 million at the close of the fiscal year ending December 31, 2006.

	Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Current and Other Assets	\$ 100,073,429	\$ 117,368,896	\$ 40,660,884	\$ 36,510,585	\$ 140,734,313	\$ 153,879,481
Capital Assets	533,304,308	607,359,380	304,012,212	337,053,163	837,316,520	944,412,543
Total Assets	633,377,737	724,728,276	344,673,096	373,563,748	978,050,833	1,098,292,024
Long-term Liabilities Outstanding	56,982,041	64,433,057	40,278,985	54,500,229	97,261,026	118,933,286
Other Liabilities	11,484,936	34,491,738	10,331,841	13,834,815	21,816,777	48,326,553
Total Liabilities	68,466,977	98,924,795	50,610,826	68,335,044	119,077,803	167,259,839
Net Assets:						
Invested in Capital Assets, net of related debt	473,928,456	536,081,574	264,708,442	279,304,517	738,636,898	815,386,091
Restricted	42,473,253	35,907,724	7,680,030	7,922,881	50,153,283	43,830,605
Unrestricted	48,509,051	53,814,183	21,673,798	18,001,306	70,182,849	71,815,489
Total Net Assets	\$ 564,910,760	\$ 625,803,481	\$ 294,062,270	\$ 305,228,704	\$ 858,973,030	\$ 931,032,185

By far the largest portion of the City's net assets, 87.6 percent, is investments in capital assets (e.g., land, buildings, infrastructure, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets comprise 4.7 percent of total net assets. These assets are subject to external restrictions on how they may be used.

The remaining balance of \$71.8 million, 7.7 percent, in unrestricted net assets may be used to meet the

government's ongoing obligations to citizens and creditors. Certain balances within unrestricted net assets have internally imposed designations or limitations which may further limit the purpose for which such net assets may be used. For example, a large portion of the unrestricted net assets within the City's Sales and Use Tax Fund has been set aside to provide for projects that are carried forward from the previous year's capital program but do not have outstanding contracts or encumbrances.

Changes in net assets. The City's net assets increased by \$72.1 million, or 8.4 percent, during the current fiscal year as shown on the following table. This increase is attributable to the City's investment in infrastructure and other assets as the City continued to grow at a favorable rate in 2006. More details that account for the change in net assets are provided in the following analysis of the governmental and business-type activities.

City of Sioux Falls
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Management's Discussion and Analysis

Changes in Net Assets							
	Governmental Activities		Business-type Activities		Total		
	2005	2006	2005	2006	2005	2006	
Revenues:							
Program Revenues:							
Charges for Services	\$ 12,971,073	\$ 12,584,325	\$ 34,156,635	\$ 37,044,854	\$ 47,127,708	\$ 49,629,179	
Operating Grants and Contributions	9,091,638	10,899,399	21,875	210,285	9,113,513	11,109,684	
Capital Grants and Contributions	16,117,162	32,473,149	10,107,337	9,620,305	26,224,499	42,093,454	
General Revenues:							
Property Taxes	30,271,442	32,492,570	-	-	30,271,442	32,492,570	
Sales Taxes	78,974,054	84,449,592	-	-	78,974,054	84,449,592	
Other (Frontage) Taxes	5,145,770	6,024,188	-	-	5,145,770	6,024,188	
Grants and Contributions not Restricted to Specific Programs	1,501,905	1,437,750	-	-	1,501,905	1,437,750	
Other	2,709,220	5,102,296	758,588	658,492	3,467,808	5,760,788	
Total Revenues	156,782,264	185,463,269	45,044,435	47,533,936	201,826,699	232,997,205	
Expenses:							
General Government	16,668,888	16,812,452	-	-	16,668,888	16,812,452	
Public Safety	35,095,686	37,829,494	-	-	35,095,686	37,829,494	
Highways & Streets	25,991,340	25,741,910	-	-	25,991,340	25,741,910	
Health	6,288,178	6,501,873	-	-	6,288,178	6,501,873	
Culture & Recreation:	23,365,686	26,198,202	-	-	23,365,686	26,198,202	
Urban & Economic Development:	8,565,257	9,594,921	-	-	8,565,257	9,594,921	
Interest on Long-term Debt	2,596,902	2,334,457	-	-	2,596,902	2,334,457	
Electric Light	-	-	5,075,181	4,887,717	5,075,181	4,887,717	
Public Parking	-	-	1,842,290	2,155,659	1,842,290	2,155,659	
Sanitary Landfill	-	-	3,307,532	4,013,197	3,307,532	4,013,197	
Water	-	-	13,913,651	14,347,689	13,913,651	14,347,689	
Water Reclamation	-	-	9,837,933	10,520,479	9,837,933	10,520,479	
Total Expenses	118,571,937	125,013,309	33,976,587	35,924,741	152,548,524	160,938,050	
Excess before Transfers	38,210,327	60,449,960	11,067,848	11,609,195	49,278,175	72,059,155	
Transfers	(172,238)	442,761	172,238	(442,761)	-	-	
Change in Net Assets	38,038,089	60,892,721	11,240,086	11,166,434	49,278,175	72,059,155	
Net Assets - Beginning	526,872,671	564,910,760	282,822,184	294,062,270	809,694,855	858,973,030	
Net Assets - Ending	\$ 564,910,760	\$ 625,803,481	\$ 294,062,270	\$ 305,228,704	\$ 858,973,030	\$ 931,032,185	

Governmental activities. Governmental activities increased the City's net assets by \$60.9 million, thereby accounting for 84.5 percent of the total growth in the net assets of the City of Sioux Falls. Although much of the increase is attributable to the difference between capital outlay and depreciation as indicated in the reconciliation of the governmental fund statements on page 33 of this report, the following key elements contributed to this increase:

- An increase in revenues, excluding capital grants and contributions, of \$12.3 million. Almost \$7.7 million of this growth was derived from increases in property and sales tax collections due to economic growth.

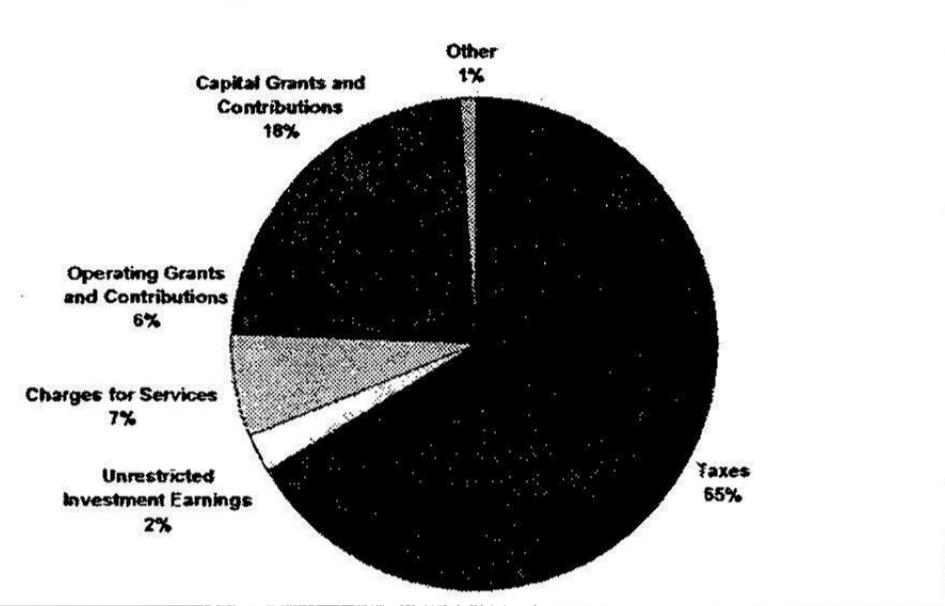
- Capital grants and contributions added another \$16.4 million to the change in net assets. A majority of the capital grants and contributions was from construction of highways and streets completed by private developers and from state and federal projects.
- Expenditure growth of \$6.4 million or a 5.4 percent increase offset a portion of the growth in revenue and contributions.

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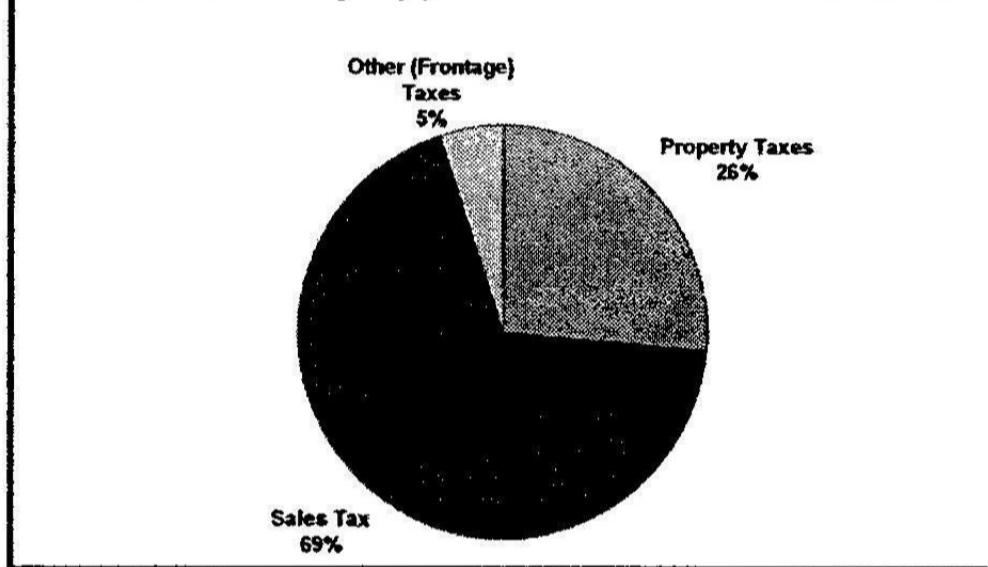
Management's Discussion and Analysis

The charts below summarize the City's revenue and expenses:

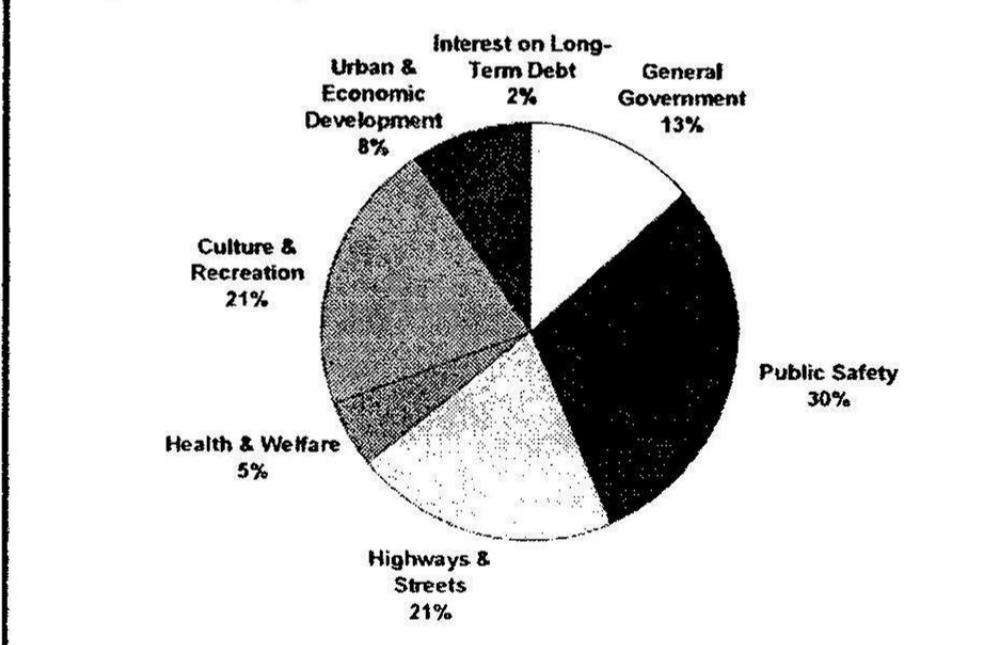
Revenue by Source—Governmental Activities



Tax Revenue by Type—Governmental Activities



Expenses by Function—Governmental Funds

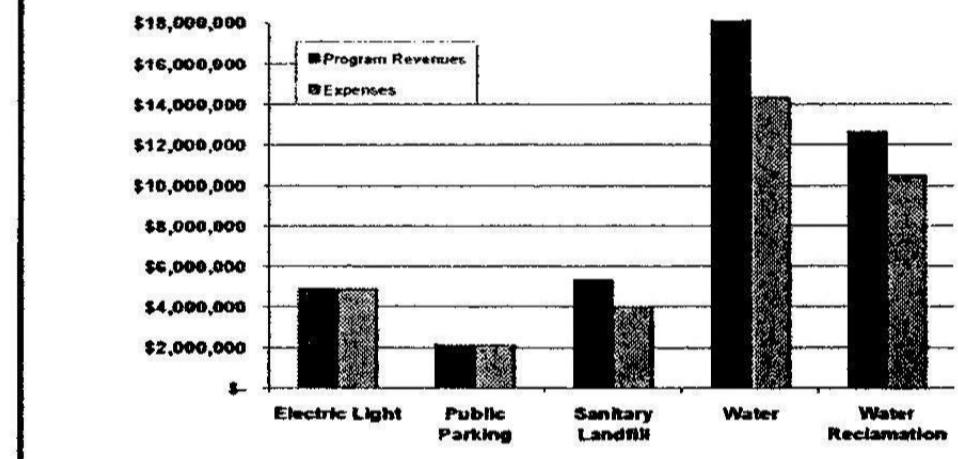


Business-type activities. Business-type activities increased the City's net assets by \$11.2 million, accounting for 15.5 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

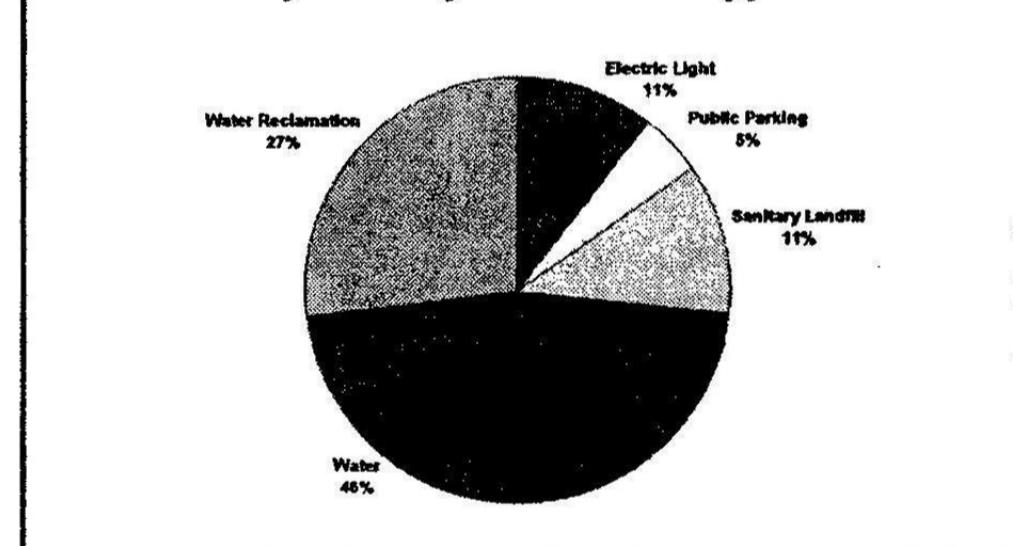
- Operating gains and losses offset each other to yield no net gain or loss within the business-type activities.
- Contributed capital from private developers added more than \$9.0 million of the \$9.6 million in capital grants and contributions to the balance sheet of the business-type activities.

The following graphs present a summary of the business-type activities revenues and expenses:

Expenses and Program Revenues—Business-type Activities



Revenues by Activity—Business-type Activities



Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Some funds are required statutorily while others are established internally to assist management in accounting for certain activities.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may

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serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$72.7 million, an increase of \$0.6 million in comparison with the prior year. The majority of the increase was realized in the General Fund.

Approximately 75.1 percent, or \$54.5 million, of this combined ending fund balance constitutes unreserved fund balance that is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: (1) to pay debt service (\$5.5 million); (2) to provide for capital purchases or construction projects (\$7.2 million); or (3) for a variety of other restricted purposes (\$5.4 million).

The **General Fund** is the chief operating fund of the City. At the end of the current fiscal year, the fund balance of the General Fund was \$34.1 million, with an unreserved fund balance of \$31.6 million. This unreserved fund balance represents 31.4 percent of the adjusted general fund expenditure budget. The General Fund saw an increase in unreserved fund balance of \$3.8 million, as in addition to favorable revenue growth, the City experienced expenditure savings due to the favorable weather conditions in 2006 impacting snow removal and energy costs and direct spending control by the City departments.

Major contributing factors to the \$5.7 million growth in revenue were: (1) an increase in property tax revenue by \$2.2 million or 7.3 percent. This increase was comprised of the statutorily provided 2.6 percent inflationary adjustment and a 4.7 percent increase for new growth; (2) an increase in sales tax revenue of \$3.2 million or 8.3 percent; and (3) an increase in investment revenue of \$1.4 million due to higher short-term interest rates combined with a shift in the yield curve which maintained market valuations. Higher average daily cash balances also contributed to the increase in interest revenue. License and permit revenue recognized a \$1 million decrease as the City sold all remaining liquor licenses in 2005, leaving no licenses available for sale in 2006. This decrease in liquor license revenue was offset in-part by another strong year in building permit sales.

Expenditures within the General Fund increased by \$4.2 million, or 4.8 percent, in 2006. The increase in spending was accounted for by operating increases, excluding capital outlay, within the following functions:

General Fund Operating Expenditure Increases				
	Operating Expenditures			
	2005	2006	Increase(Decrease)	
General Government	\$ 10,679,235	\$ 10,463,202	\$ (216,033)	-2.0%
Public Safety	34,362,530	37,739,072	3,376,542	9.8%
Highways & Streets	15,963,968	14,440,969	(1,522,999)	-9.5%
Health	6,254,196	6,571,869	317,673	5.1%
Culture & Recreation	14,823,418	16,848,972	2,025,554	13.7%
Urban & Econ Development	4,408,913	4,603,141	194,228	4.4%

The increase in public safety includes 15 new fire positions as Fire Station #10 on the City's west side came online in 2006. In addition, the police department added five new positions and absorbed the Metro Communications contract as an operating expenditure within the General Fund. The culture and recreation function saw an increase in expenditures in part related to increased contributions to the operation and maintenance of the Great Plains Zoo within Parks and Recreation. Renovation costs associated with the Orpheum Theater project within the Arena budget also contributed to the increase in this function.

Expenditures within Highways and Streets were lower than the year previous primarily due to favorable weather conditions resulting in much lower snow removal costs than the previous year.

The **Sales and Use Tax Fund** saw a decrease in fund balance of \$4 million to a balance of \$26.8 million, \$17.2 million of which is unreserved. This decrease is due to the completion of projects that had been encumbered or carried forward from previous years. Offsetting this unreserved fund balance, the City will carry-forward and add to next year's budget capital improvement projects without contracts or encumbrances of \$11.1 million for projects or components of projects which have not been started. Sales and use tax collections in the fund were up by 8.4 percent over the previous year.

The **Entertainment Tax and Community Development Funds** experienced increases in fund balances during 2006 primarily due to lower expenditures than anticipated. The Entertainment Tax Fund ended the year with a \$3.1 million unreserved fund balance, much of which will be dedicated to debt service in future years. Entertainment tax (third penny) receipts increased by 5.8 percent over the previous year.

The **Storm Drainage Fund** experienced a decrease in fund balance of \$2.2 million during 2006 as the Fund continues to follow the growth in development. Development fee increases have been approved and implemented in 2007 and drainage fee adjustments have been approved to be implemented in 2008. These increases are necessary to provide the Fund with the ability to construct the capital infrastructure needed to keep pace with growth and development as well as to maintain the current system.

Proprietary (business-type) funds. The City of Sioux Falls' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The following table depicts the unrestricted net assets and the increase or decrease over previous years for the individual enterprise funds.

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Proprietary Funds - Net Assets			
	Unrestricted Net Assets		
	2005	2006	Increase (Decrease)
Electric Light	\$ 2,135,398	\$ 1,670,279	\$ (465,119)
Public Parking Facilities	1,196,866	1,411,102	214,236
Sanitary Landfill	1,775,926	1,206,061	(569,865)
Water	11,563,667	8,922,898	(2,640,769)
Water Reclamation	4,816,036	4,049,230	(766,806)

The decrease in unrestricted net assets within the proprietary (enterprise) funds is generally related to costs of capital assets as all five enterprise funds experienced positive cash flow from operating activities. The fast pace of development within the City continues to place increased demands on the City's need for infrastructure to support this growth. This demand for expanding infrastructure has a definite impact on the enterprise (utility) funds as they require the necessary resources to keep pace with such development. Four of the five enterprise funds (Electric Light, Sanitary Landfill, Water, and Water Reclamation) have already undergone extensive rate reviews utilizing both external consultants and internal resources. The final enterprise fund (Public Parking) has a public parking feasibility and utilization study underway, which will also include a review of the public parking rate structure.

The City's rate structure for these various utilities compares very favorably both locally and regionally as there have been very few rate adjustments in the recent past. Thus, the City has the capacity to increase rates within most of these utility funds while maintaining a very competitive rate structure for these services. The City will conduct annual rate reviews for these enterprise funds to ensure that rates are adequate to fund both ongoing operating costs and capital infrastructure build-outs.

The decrease in the unrestricted net assets of the **Water Fund** is from continued spending on capital assets for system upgrades and the development of a supplemental water supply through the Lewis & Clark Rural Water System (LCRWS). The Water Fund used \$9.8 million of cash flow for capital and related financing activities during the year while generating \$6.8 million in operating cash flow for comparable activities.

Upon completion of the initial rate and water needs analysis in 2005, the City approved the first in a series of anticipated water rate adjustments effective on April 1, 2006. During the year, the water rate analysis was updated by an independent engineering consultant based upon the consideration of the City's pre-payment of its portion of the LCRWS project (described in Note 5 on page 61). This project is projected to provide for the City's future supplemental water needs from 2012 to beyond 2040. A second rate increase was adopted in December to become effective on February 1, 2007.

The City is planning to issue bonds during 2007 for the pre-payment of the LCRWS project costs. To fund this pre-payment, the City is anticipating further water rate adjustments over the next several years.

The **Water Reclamation Fund** saw a decrease in unrestricted net assets due to continued investment in infrastructure assets as \$3.0 million in operating cash flow was offset with an outflow of \$4.2 million in cash flows from capital and related financing activities.

With the use of an independent engineering consultant, the City completed a comprehensive rate study for the **Water Reclamation Fund** in 2006. The analysis reviewed current and future development that is anticipated to meet the needs of the growth occurring within the City. This includes the repayment of state revolving notes being used to finance the planned expansion of the Eastside Sanitary Sewer System, which is currently under construction and will initially open 9,000 acres of land to development in late 2007. With further capital investments, this project will open up a total of 23,000 acres to development.

The rate analysis indicated that in order to keep pace with development, a series of rate adjustments are required. The first rate increase was approved to be implemented on January 1, 2007. The City is anticipating further rate adjustments over the next several years.

Based upon a comprehensive rate analysis compiled by a consulting engineering firm, rates in the **Sanitary Landfill Fund** were increased in order to fund ongoing expansion and increased costs associated with closure and post-closure care. The new rates became effective on September 1, 2006. The results of the rate study also indicated that an additional rate adjustment will be necessary at the beginning of 2008.

Upon completion of an extensive rate study conducted by an outside engineering firm, the **Electric Light Fund** implemented a rate increase effective on November 1, 2007. Higher energy costs and a renegotiated agreement for supplemental power impacting operating costs combined with capital projects necessitated this increase. The results of the rate study indicated that an additional rate adjustment will be necessary at the beginning of 2008.

The **Public Parking Fund** is currently undergoing a comprehensive parking utilization, feasibility and rate study. Although the fund can meet ongoing operating needs and small construction projects through ramp revenue and receipt of parking fines, the City will need to carefully consider funding alternatives for any significant future ramp expansion in the downtown core.

General Fund Budgetary Highlights

Differences between the original expenditure budget and the final amended budget were \$1.2 million or 1.2 percent. The budget adjustments were primarily to recognize unanticipated grant revenues and encumbered expenditures within the police, health, and arena budgets.

Although the final amended budget provided for the use of \$3.7 million (\$3.1 million original) in unreserved fund balance, the City actually recognized a \$3.5 million positive change to fund balance. This difference is due to:

- 1) investment, bank franchise tax, and building permit fee revenue well in excess of budget offset shortfalls in other

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revenue categories; 2) recognized savings in snow removal and energy costs due to favorable weather conditions; 3) health premiums for active members, both employer and employee, were suspended for two payroll periods as the City's self-funded internal service health fund achieved an adequate reserve balance due to moderating medical care, prescription drug, and hospital charge inflation and lower overall claims experience within the active employee group; and 4) direct spending control by the City departments.

Capital Assets and Debt Administration

Capital assets. The investment in capital assets for the governmental and business-type activities as of December 31, 2006, amounted to \$944.4 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure, intangibles, and construction in progress.

Capital Assets (net of depreciation)						
	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Land	\$ 106,924,260	\$ 112,186,010	\$ 10,512,139	\$ 10,727,793	\$ 117,436,399	\$ 122,913,803
Buildings	90,605,231	88,994,152	16,952,160	17,359,433	107,557,391	106,353,585
Improvements Other Than Buildings	44,786,955	46,677,459	22,654,492	12,074,331	67,441,447	58,751,790
Machinery and Equipment	23,198,636	22,642,371	14,959,374	14,799,688	38,158,010	37,442,059
Infrastructure	251,236,864	321,025,373	220,796,455	239,424,342	472,033,319	560,449,715
Intangibles	879,669	951,214	5,806,088	9,771,510	6,685,757	10,722,724
Construction in Progress	15,672,693	14,882,801	12,331,504	32,896,066	28,004,197	47,778,867
Total Assets	\$ 533,304,308	\$ 607,359,380	\$ 304,012,212	\$ 337,053,163	\$ 837,316,520	\$ 944,412,543

The City's investment in capital assets, net of accumulated depreciation, increased by \$107.1 million in the current fiscal year. This increase was due in large part to the addition of the following capital assets during the current fiscal year:

- The completion of a variety of street construction and reconstruction projects (including donated and annexed streets) totaling \$40.8 million.
- The completion of light, water, wastewater, and storm drainage infrastructure totaling \$59.7 million, including improvements to eight storm drainage basins, the continued construction of the Eastside Sanitary Sewer System, and contributions to the Lewis and Clark Rural Water System.
- The construction of Fire Station #10 totaling \$1.33 million.

- The construction of a compost pad/public drop off area at the Landfill as well as a new recycling building totaling \$2.3 million.

Additional information on capital assets can be found in Note 3 in the Notes to the Financial Statements.

Long-term debt. At the end of the current fiscal year, the City of Sioux Falls had total debt outstanding of \$121.9 million. Of this amount, \$29.3 million comprises revenue bonds secured solely by sales and use and entertainment tax revenues, and \$3.3 million of bonds backed by revenues of the public parking system. The second penny (.92) sales and use tax, storm drainage, water, and water reclamation funds back \$88.5 million of debt, which are notes issued by the South Dakota Conservancy District.

Outstanding Debt						
	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Bonds	\$ 41,615,000	\$ 29,250,000	\$ 3,650,000	\$ 3,320,000	\$ 45,265,000	\$ 32,570,000
Notes	9,823,632	34,117,258	33,958,769	54,428,646	43,782,401	88,545,904
Certificates of Participation	-	-	1,695,000	-	1,695,000	-
Installment Obligations	930,314	820,229	-	-	930,314	820,229
Total	\$ 52,368,946	\$ 64,187,487	\$ 39,303,769	\$ 57,748,646	\$ 91,672,715	\$ 121,936,133

The City made principal payments of \$18.0 million; however, the net effect on debt with new issuances was an increase of \$30.3 million during the current fiscal year as state revolving fund notes were drawn upon to fund storm drainage, sanitary sewer, and water improvements. There are currently \$31.7 million in authorized but undrawn

revenue notes for storm drainage, water, and water reclamation capital improvements. It is anticipated that a substantial portion of these undrawn amounts will be drawn in 2006.

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As discussed in the notes to the financial statements, the City has approved, but not yet issued, two additional issuances of second penny sales and use tax revenue bonds.

The first, which became effective in January of 2007, authorized up to \$70 million in bonds for the prepayment of the City's share of the Lewis and Clark Rural Water System project to supply supplemental water to the City. This supplemental water supply is anticipated to meet the expected growth in the City's water needs to beyond 2040. Although secured by a pledge of the second penny sales tax, these bonds are expected to be repaid with water rate revenues.

The second, adopted in March of 2007, authorized the issuance of up to \$35 million in bonds. As anticipated within the City's 2007-2011 Capital Improvement Program adopted in 2006, these bonds are to fund the expansion and renovation of the downtown main library, the construction of a sports facility (softball complex) at Harmonon Park, and the construction of a new swimming pool at Nelson Park. These bonds will be secured by a pledge of the City's second penny sales and use tax as well as being repaid by this revenue source.

The City carries an 'Aa3' bond rating from Moody's and an 'AA-' from Standard and Poor's on the sales and use tax revenue bonds, although all issues have been insured to Aaa quality. The public parking revenue bonds maintain an 'A3' rating from Moody's, and the certificates of participation carry an 'Aa2' rating.

The State Constitution limits the amount of debt a governmental entity may issue based upon three categories as described in the notes to the financial statements. Currently, all of the City's debt is classified under the category of general-purpose debt, which is limited to five percent of assessed valuation of the taxable property. The current general-purpose debt limitation for the City is \$403 million, which is \$281 million in excess of the City's outstanding bonded debt.

Additional information on the City of Sioux Falls' long-term debt can be found beginning on page 56 of this report.

Economic Outlook and Next Year's Budget

With an 8.3 percent increase year over year, the City continued to see solid growth from its largest source of revenue, the sales and use tax in 2006. Averaged with the 5.9 percent growth for 2005, the growth rate for the last two

years has averaged 7.1 percent annually, which is consistent with recent historical averages. The timing of tax receipts may account for much of the fluctuation from year-to-year; however, the growth trend remains solid. The City adopted the FY2007 budget anticipating a sustained sales tax growth rate of 7.0 percent.

The City's second largest source of tax revenue, property tax, as certified for the 2007 budget reflects a 7.7 percent increase which included an inflationary adjustment of 3.0 percent and 4.7 percent for new growth. The favorable trend in building permits for the past several years for both commercial and residential development will continue to pay dividends as the completion of the permitted construction begins to impact property valuations.

During the current fiscal year, unreserved fund balance in the general fund increased by \$3.5 million to \$31.6 million. The current adjusted budget in 2007 anticipates the use of \$2.5 million of this unreserved fund balance in the General Fund. This use of fund balance is projected to produce a year-end unreserved fund balance of approximately 27.5 percent of the 2007 expenditure budget.

When looking at the statistical and financial figures, it becomes evident that the City continues to experience very favorable economic growth. With major expansion plans being announced within the City's health care industry, it appears that the City will see continued strong development and employment growth. When combined with the fact that a large amount of land is already being designed for development, the City is anticipating strong future development and solid economic growth over the next several years.

These favorable economic trends will require the City to continue to properly anticipate and plan for both infrastructure build-outs and the operating impacts generated by such positive economic activity.

Requests for Information

This financial report is designed to provide a general overview of the City of Sioux Falls' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Office, 224 West Ninth Street, City of Sioux Falls, Sioux Falls, SD 57104, (605) 367-8860

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Statement of Net Assets

	Primary Government			Component Unit
	Governmental Activities		Business-type Activities	Housing & Redevelopment Commission
Assets				
Cash and Cash Equivalents	\$ 75,283,233	\$ 15,275,766	\$ 90,558,999	\$ 991,518
Investments	-	77,962	77,962	465,973
Receivables, net	23,085,172	4,371,502	27,456,674	322,544
Prepaid Items	-	-	-	30,181
Internal Balances	(618,936)	618,936	-	-
Due From Other Governments	9,492,919	21,332	9,514,251	119,306
Inventory of Supplies and Stores	2,345,050	2,636,299	4,981,349	67,392
Unamortized Debt Issuance Costs	-	74,268	74,268	-
Restricted Assets:				
Cash and Cash Equivalents	2,021,349	13,434,520	15,455,869	187,923
Investments	5,748,722	-	5,748,722	5,947
Accrued Interest	11,387	-	11,387	-
Capital Assets:				
Land	112,186,010	10,727,793	122,913,803	504,280
Buildings, net	88,994,152	17,359,433	106,353,585	1,768,091
Improvements Other Than Buildings, net	46,677,459	12,074,331	58,751,790	-
Machinery and Equipment, net	22,642,371	14,799,688	37,442,059	254,537
Infrastructure, net	321,025,373	239,424,342	560,449,715	29,015
Intangibles, net	951,214	9,771,510	10,722,724	-
Construction in Progress	14,882,801	32,896,066	47,778,867	-
Total Assets	724,728,276	373,563,748	1,098,292,024	4,746,707
Liabilities				
Accounts Payable and Other Current Liabilities	7,270,641	976,460	8,247,101	217,688
Interest Payable	540,682	572,160	1,112,842	108
Prepaid Revenue	-	107,864	107,864	-
Advances from other Funds	-	-	-	-
Closure & Postclosure Care Costs	-	6,795,921	6,795,921	-
Deposits	-	365,011	365,011	-
Unearned Revenue	18,232,116	-	18,232,116	2,210
Long-term Liabilities:				
Due Within One Year	8,448,299	5,017,399	13,465,698	58,542
Due In More Than One Year	64,433,057	54,500,229	118,933,286	795,020
Total Liabilities	98,924,795	68,335,044	167,259,839	1,073,568
Net Assets				
Invested in Capital Assets, net of related debt	536,081,574	279,304,517	815,386,091	1,880,454
Restricted for:				
Inventories	1,887,687	-	1,887,687	-
Encumbrances	7,153,219	-	7,153,219	-
Capital Projects	17,162,128	-	17,162,128	-
Capital Replacement	-	7,415,381	7,415,381	-
Community Development	613,790	-	613,790	-
Debt Service	5,504,189	507,500	6,011,689	-
Permanent Funds:				
Nonexpendable	26,711	-	26,711	-
Other Purposes	3,560,000	-	3,560,000	502,030
Unrestricted	53,814,183	18,001,306	71,815,489	1,290,655
Total Net Assets	\$ 625,803,481	\$ 305,228,704	\$ 931,032,185	\$ 3,673,139

The notes to the financial statements are an integral part of this statement.

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Statement of Activities

	Program Revenues				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Function/Program Activities					
Primary Government:					
Governmental Activities:					
General Government	\$ 16,812,452	\$ 2,502,068	\$ 3,290,631	\$ 86,943	
Public Safety:					
Fire Protection	16,149,522	103,375	422,385	-	
Police Protection	21,679,972	242,009	379,081	-	
Highways and Streets	25,741,910	715,899	1,811,337	32,136,571	
Health	6,501,873	2,265,039	1,677,009	-	
Culture and Recreation:					
Arena	1,592,175	281,396	-	-	
Libraries	5,157,613	163,105	704,129	51,755	
Parks and Recreation	15,269,450	1,203,672	184,921	197,880	
Pavilion	4,178,964	-	-	-	
Urban and Economic Development:					
Convention Center/CVB	2,342,721	424,215	-	-	
Community Development	3,524,370	1,592,484	2,205,909	-	
Planning and Building Services	3,727,830	3,091,063	223,997	-	
Interest on Long-Term Debt	2,334,457	-	-	-	
Total Governmental Activities	125,013,309	12,584,325	10,899,399	32,473,149	
Business-type Activities:					
Electric Light	4,887,717	4,770,629	-	157,310	
Public Parking	2,155,659	2,186,337	-	-	
Sanitary Landfill	4,013,197	5,339,958	35,244	-	
Water	14,347,689	15,910,153	175,041	5,621,839	
Water Reclamation	10,520,479	8,837,777	-	3,841,156	
Total Business-type Activities	35,924,741	37,044,854	210,285	9,620,305	
Total Government	\$ 160,938,050	\$ 49,629,179	\$ 11,109,684	\$ 42,093,454	
Component Unit:					
Housing & Redevelopment Commission	\$ 11,431,872	\$ 542,052	\$ 10,536,304	\$ -	

General Revenues:

Taxes:

Property Tax

Sales Tax

Frontage Tax

Amusement Tax

Unrestricted State and County Shared Revenues

Unrestricted Investment Earnings

Miscellaneous Revenue, Net

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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Statement of Activities (cont)

Net (Expense) Revenue and Changes in Net Assets			
Primary Government		Component Unit	
Governmental Activities	Business-type Activities	Total	Housing and Redevelopment Commission
\$ (10,932,810)	\$ -	\$ (10,932,810)	
(15,623,762)	-	(15,623,762)	
(21,058,882)	-	(21,058,882)	
8,921,897	-	8,921,897	
(2,559,825)	-	(2,559,825)	
(1,310,779)	-	(1,310,779)	
(4,238,624)	-	(4,238,624)	
(13,682,977)	-	(13,682,977)	
(4,178,964)	-	(4,178,964)	
(1,918,506)	-	(1,918,506)	
274,023	-	274,023	
(412,770)	-	(412,770)	
(2,334,457)	-	(2,334,457)	
<u>(69,056,436)</u>	<u>-</u>	<u>(69,056,436)</u>	
- 40,222		40,222	
- 30,678		30,678	
- 1,362,005		1,362,005	
- 7,359,344		7,359,344	
- 2,158,454		2,158,454	
<u>- 10,950,703</u>	<u></u>	<u>10,950,703</u>	
<u>(69,056,436)</u>	<u>10,950,703</u>	<u>(58,105,733)</u>	
		\$ (353,516)	
			731,583
32,492,570	-	32,492,570	-
84,449,592	-	84,449,592	-
6,007,541	-	6,007,541	-
16,647	-	16,647	-
1,437,750	-	1,437,750	-
4,690,677	1,172,196	5,862,873	70,261
411,619	(513,704)	(102,085)	(4,117)
<u>442,761</u>	<u>(442,761)</u>	<u>-</u>	<u>-</u>
<u>129,949,157</u>	<u>215,731</u>	<u>130,164,888</u>	<u>797,727</u>
60,892,721	11,166,434	72,059,155	444,211
564,910,760	294,062,270	858,973,030	3,228,928
<u>\$ 625,803,481</u>	<u>\$ 305,228,704</u>	<u>\$ 931,032,185</u>	<u>\$ 3,673,139</u>

City of Sioux Falls
Comprehensive Annual Financial Report
December 31, 2006

Balance Sheet - Governmental Funds

	General	Entertainment Tax	Sales and Use Tax
Assets			
Cash and Cash Equivalents	\$ 30,111,820	\$ 3,221,950	\$ 21,080,622
Receivables:			
Taxes-Delinquent	729,715	-	-
Accounts (net of allowance for uncollectibles)	1,314,837	118,699	-
Interest and Penalty	680,465	45,203	17,657
Special Assessments	-	-	1,421,861
Rehabilitation Loans and Grants	-	-	-
Due from Other Funds	5,809	-	1,500
Due from Other Governments	2,165,075	165,999	1,513,475
Inventory of Supplies and Stores	1,724,921	-	-
Advances to Other Funds	-	-	522,800
Notes Receivable	-	-	1,293,483
Restricted Assets:			
Cash and Cash Equivalents	779,342	10,546	267,086
Investments	-	2,516,852	3,231,870
Accrued Interest	-	11,387	-
Total Assets	\$ 37,511,984	\$ 6,090,636	\$ 29,350,354
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$ 301,552	\$ 37,297	\$ 761,551
Interest Payable	2,710	128,557	404,995
Due to Other Funds	-	-	-
Accrued Wages	2,534,886	-	-
Advances from other Funds	-	-	-
Deferred Revenue	530,309	-	1,384,447
Total Liabilities	3,369,457	165,854	2,550,993
Fund Balances			
Reserved for:			
Interfund Advances	-	-	522,800
Inventories	1,724,921	-	-
Encumbrances	43,339	432,076	4,659,653
Debt Service	-	2,410,228	3,093,961
Notes Receivable	-	-	1,293,483
Other Purposes	779,342	-	-
Unreserved, Reported in:			
General Fund	31,594,925	-	-
Special Revenue Funds	-	3,082,478	17,229,464
Capital Project Funds	-	-	-
Permanent Funds	-	-	-
Total Fund Balances	34,142,527	5,924,782	26,799,361
Total Liabilities and Fund Balances	\$ 37,511,984	\$ 6,090,636	\$ 29,350,354

The notes to the financial statements are an integral part of this statement.

**City of Sioux Falls
Comprehensive Annual Financial Report
December 31, 2006**

Balance Sheet - Governmental Funds (cont)

Community Development	Storm Drainage	Other Governmental Funds	Total Governmental Funds
\$ 193,986	\$ 2,971,966	\$ 3,605,136	\$ 61,185,480
-	-	-	729,715
-	38,816	2,300	1,474,652
13,766	38,513	36,551	832,155
-	-	-	1,421,861
16,360,885	-	-	16,360,885
-	-	-	7,309
-	23,453	86,303	3,954,305
-	-	162,766	1,887,687
-	-	-	522,800
425,211	-	-	1,718,694
964,375	-	-	2,021,349
-	-	-	5,748,722
-	-	-	11,387
\$ 17,958,223	\$ 3,072,748	\$ 3,893,056	\$ 97,877,001
\$ 109,198	\$ 2,093,677	\$ 94,595	\$ 3,397,870
1,198	3,222	-	540,682
-	7,309	-	7,309
19,638	19,150	130,748	2,704,422
-	-	400,000	400,000
16,250,024	-	-	18,164,780
16,380,058	2,123,358	625,343	25,215,063
-	-	-	522,800
-	-	162,766	1,887,687
-	1,998,920	19,231	7,153,219
-	-	-	5,504,189
-	-	-	1,293,483
964,375	-	26,711	1,770,428
-	-	-	31,594,925
613,790	(1,049,530)	2,301,606	22,177,808
-	-	710,228	710,228
-	-	47,171	47,171
1,578,165	949,390	3,267,713	72,661,938
\$ 17,958,223	\$ 3,072,748	\$ 3,893,056	\$ 97,877,001

City of Sioux Falls
Comprehensive Annual Financial Report
December 31, 2006

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets

Total Fund Balances for Governmental Funds		\$ 72,661,938
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital Assets	\$ 901,314,543	
Accumulated Depreciation	<u>(301,045,481)</u>	600,269,062
Internal service funds are used by management to charge the costs of fleet management, insurance programs, and technology equipment to individual funds. The assets and liabilities of the internal service funds are included in the Statement of Net Assets as follows:		
Governmental Activities	20,870,196	
Business-Type Activities	<u>(809,072)</u>	20,061,124
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Installment Obligations	(820,230)	
Notes Payable-Revenue	(34,117,258)	
Bonds Payable-Revenue	(29,250,000)	
Accrued Sick Leave	<u>(8,524,571)</u>	(72,712,059)
Long-term receivables are not due and receivable in the current period and therefore are not reported in the funds.		
		<u>5,523,416</u>
Net Assets of Governmental Activities		\$ 625,803,481

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**City of Sioux Falls
Comprehensive Annual Financial Report
Year Ended December 31, 2006**

**Statement of Revenues, Expenditures, and Changes
in Fund Balance - Governmental Funds**

	General	Entertainment Tax	Sales and Use Tax
Revenues			
Taxes:			
Property	\$ 32,492,570	\$ -	\$ -
Sales	41,290,585	4,335,280	38,066,640
Frontage	2,519,581	-	-
Lodging	504,266	-	-
Amusement	16,647	-	-
Penalties and Interest	49,371	-	-
Special Assessments	-	-	1,164,510
Licenses and Permits	3,994,868	-	-
Intergovernmental	6,800,111	-	830,400
Charges for Goods and Services	4,170,337	11,341	-
Fines and Forfeitures	1,147,628	-	-
Investment Revenue	2,798,696	529,099	384,524
Rentals/Operating Leases	517,533	412,874	-
Contributions	294,802	-	65,858
Miscellaneous Revenue	69,292	-	46,100
Total Revenues	96,666,287	5,288,594	40,558,032
Expenditures			
Current:			
General Government	10,463,202	-	-
Public Safety	37,739,072	-	(19,809)
Highways and Streets	14,440,969	-	89,084
Health	6,571,869	-	9,528
Culture and Recreation	16,848,972	1,624,798	104,641
Urban and Economic Development	4,603,141	660,023	30,000
Debt Service:			
Principal	27,917	295,000	12,152,166
Interest and Fiscal Charges	33,437	1,106,305	1,189,679
Capital Outlay	384,590	626,260	31,329,775
Total Expenditures	91,113,169	4,312,386	44,885,064
Revenues Over (Under) Expenditures	5,553,118	976,208	(4,327,032)
Other Financing Sources (Uses)			
Sale of Surplus Property	57,586	693	-
Damage Recovery	32,769	-	-
Revenue Note Issuance	-	-	-
Transfers In	430,777	-	362,682
Transfers Out	(2,604,500)	(87,575)	(69,433)
Total Other Financing Sources (Uses)	(2,083,368)	(86,882)	293,249
Net Change in Fund Balances	3,469,750	889,326	(4,033,783)
Fund Balances, January 1			
Prior period adjustment	27,038,869	5,035,456	30,833,144
Fund Balances, January 1, as adjusted	3,633,908	-	-
Fund Balances, December 31	30,672,777	5,035,456	30,833,144
	\$ 34,142,527	\$ 5,924,782	\$ 26,799,361

The notes to the financial statements are an integral part of this statement

City of Sioux Falls
Comprehensive Annual Financial Report
Year Ended December 31, 2006

**Statement of Revenues, Expenditures, and Changes
in Fund Balance - Governmental Funds (cont)**

Community Development	Storm Drainage	Other Governmental Funds	Total
\$	\$	\$	\$
-	-	-	32,492,570
-	-	-	83,692,505
-	3,487,960	-	6,007,541
-	-	-	504,266
-	-	-	16,647
-	-	-	49,371
-	1,069,391	-	2,233,901
-	4,540	-	3,999,408
1,862,707	-	2,724,399	12,217,617
-	-	683,289	4,864,967
-	-	60	1,147,688
84,700	134,886	119,116	4,051,021
1,592,484	-	-	2,522,891
-	-	1,429	362,089
145,228	-	468	261,088
3,685,119	4,696,777	3,528,761	154,423,570
-	-	5,553,751	16,016,953
-	-	-	37,719,263
-	872,451	76,126	15,478,630
-	-	-	6,581,397
-	-	3,539	18,581,950
3,183,228	-	397,017	8,873,409
-	118,643	-	12,593,726
-	(4,510)	-	2,324,911
-	30,289,760	1,725,770	64,356,155
3,183,228	31,276,344	7,756,203	182,526,394
501,891	(26,579,567)	(4,227,442)	(28,102,824)
18	-	-	58,297
-	-	22,814	55,583
-	24,412,814	-	24,412,814
254,500	-	2,350,000	3,397,959
(343,202)	-	-	(3,104,710)
(88,684)	24,412,814	2,372,814	24,819,943
413,207	(2,166,753)	(1,854,628)	(3,282,881)
1,114,941	3,072,199	4,969,039	72,063,648
50,017	43,944	153,302	3,881,171
1,164,958	3,116,143	5,122,341	75,944,819
\$ 1,578,165	\$ 949,390	\$ 3,267,713	\$ 72,661,938

**City of Sioux Falls
Comprehensive Annual Financial Report
Year Ended December 31, 2006**

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities**

Net Change in Fund Balances - Total Governmental Funds	\$ (3,282,881)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	
Expenditures for Capital Assets	\$ 64,356,155
Gains/Losses on Capital Assets	(765,661)
Capital Assets transferred from Business-type Activities	149,512
Capital Assets transferred to Business-type Activities	(157,311)
Less Current Year Depreciation	<u>(21,834,116)</u> 41,748,579
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	
Developer Contributions of Infrastructure	29,989,180
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	
Principal Payments	12,593,726
Arbitrage Rebate	91,446
Revenue Note Proceeds	<u>(24,412,814)</u> (11,727,642)
Some revenues reported in the Statement of Activities do not provide current financial resources and therefore are not reported as revenues in governmental funds.	
Due From Other Governments - Taxes	252,821
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Compensated Absences	(123,863)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported within governmental activities.	
	4,036,527
Change in Net Assets of Governmental Activities	<u>\$ 60,892,721</u>

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City of Sioux Falls
Comprehensive Annual Financial Report
December 31, 2006

Statement of Net Assets - Proprietary Funds

	Enterprise Funds		
	Electric Light	Public Parking	Sanitary Landfill
Assets			
Current:			
Cash and Cash Equivalents	\$ 1,052,154	\$ 1,756,551	\$ 2,323,797
Investments	-	-	-
Receivables, net:			
Accounts	368,476	228	689,579
Interest	13,677	29,372	97,410
Special Assessments	-	-	-
Unbilled	194,526	-	-
Due From Other Funds	-	-	3,863
Due From Other Governments	-	4,864	15,908
Inventory of Supplies and Stores	565,494	-	4,738
Total Current Assets	2,194,327	1,791,015	3,135,295
Noncurrent:			
Restricted Cash and Cash Equivalents	-	507,500	5,204,251
Unamortized Debt Issuance Costs	-	74,268	-
Capital Assets:			
Land	1,366	3,862,490	1,779,970
Buildings	417,522	-	3,501,666
Improvements Other Than Buildings	9,250	16,392,230	7,417,818
Machinery and Equipment	929,824	388,598	88,308
Infrastructure	21,892,433	-	404,378
Intangibles	-	-	-
Construction in Progress	34,053	-	759,105
Less: Accumulated Depreciation	(9,327,220)	(10,398,113)	(2,247,520)
Total Noncurrent Assets	13,957,228	10,826,973	16,907,976
Total Assets	16,151,555	12,617,988	20,043,271
Liabilities			
Current:			
Accounts Payable	260,054	10,614	51,787
Accrued Wages	34,053	33,200	52,473
Prepaid Revenue	-	107,864	-
Accrued Interest	-	23,974	-
Incurred But Not Reported Claims	-	-	-
Due To Other Funds	2,760	-	-
Notes Payable-Revenue	-	-	-
Bonds Payable-Revenue	-	345,000	-
Deposits	37,060	17,038	3,525
Total Current Liabilities	333,927	537,690	107,785
Noncurrent:			
Accrued Compensated Absences	190,121	138,691	229,779
Advances From Other Funds	-	122,800	-
Closure & Postclosure Care Costs	-	-	6,795,921
Notes Payable-Revenue	-	-	-
Bonds Payable-Revenue	-	2,975,000	-
Total Noncurrent Liabilities	190,121	3,236,491	7,025,700
Total Liabilities	524,048	3,774,181	7,133,485
Net Assets:			
Invested in Capital Assets, net of related debt	13,957,228	6,925,205	11,703,725
Restricted for Debt Service	-	507,500	-
Restricted for Capital Replacement	-	-	-
Unrestricted	1,670,279	1,411,102	1,206,061
Total Net Assets	\$ 15,627,507	\$ 8,843,807	\$ 12,909,786

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds

Net assets of business-type activities

City of Sioux Falls
Comprehensive Annual Financial Report
December 31, 2006

Statement of Net Assets - Proprietary Funds (cont)

		Enterprise Funds (cont)		Internal Service Funds	
Water		Water Reclamation	Total		
\$ 6,635,252	\$ 77,962	\$ 3,508,012	\$ 15,275,766	\$ 14,097,753	
			77,962		-
712,579		623,018	2,393,880	360,584	
90,581		141,864	372,904	186,626	
271,480			271,480		-
613,590		525,122	1,333,238		-
16,648			20,511		-
		560	21,332	15,198	
1,739,133		326,934	2,636,299	457,363	
<u>10,157,225</u>		<u>5,125,510</u>	<u>22,403,372</u>	<u>15,117,524</u>	
307,388		7,415,381	13,434,520		-
			74,268		-
4,488,226		595,741	10,727,793		-
16,365,542		3,290,574	23,575,304	113,145	
70,358		186,449	24,076,105	310,317	
22,725,546		6,771,546	30,903,822	19,928,650	
167,181,380		161,149,081	350,627,272		-
9,771,510			9,771,510		-
2,170,277		29,932,631	32,896,066		-
(55,167,749)		(68,384,107)	(145,524,709)	(13,261,794)	
<u>167,912,478</u>		<u>140,957,296</u>	<u>350,561,951</u>	<u>7,090,318</u>	
<u>178,069,703</u>		<u>146,082,806</u>	<u>372,965,323</u>	<u>22,207,842</u>	
214,109		13,421	549,985	932	
166,736		140,013	426,475	67,417	
			107,864		-
194,916		353,270	572,160		-
				1,100,000	
1,178		16,573	20,511		-
2,368,558		1,633,841	4,002,399		-
			345,000		-
307,388			365,011		-
<u>3,252,885</u>		<u>2,157,118</u>	<u>6,389,405</u>	<u>1,168,349</u>	
657,388		553,003	1,768,982	169,297	
			122,800		-
			6,795,921		-
16,096,559		34,329,688	50,426,247		-
			2,975,000		-
<u>16,753,947</u>		<u>34,882,691</u>	<u>62,088,950</u>	<u>169,297</u>	
<u>20,006,832</u>		<u>37,039,809</u>	<u>68,478,355</u>	<u>1,337,646</u>	
149,139,973		97,578,386	279,304,517	7,090,318	
			507,500		-
		7,415,381	7,415,381		-
8,922,898		4,049,230	17,259,570	13,779,878	
<u>\$ 158,062,871</u>		<u>\$ 109,042,997</u>	<u>304,486,968</u>	<u>\$ 20,870,196</u>	
			<u>741,736</u>		
			<u>\$ 305,228,704</u>		

City of Sioux Falls
Comprehensive Annual Financial Report
Year Ended December 31, 2006

**Statement of Revenues, Expenses, and Changes
in Net Assets - Proprietary Funds**

	Enterprise Funds		
	Electric Light	Public Parking	Sanitary Landfill
Operating Revenues:			
Charges for Goods and Services	\$ 4,768,879	\$ -	\$ 5,339,798
Fines and Forfeitures	1,750	-	160
Pledged as Security for Revenue Bonds and Notes:			
Charges for Goods and Services	-	1,872,204	-
Fines and Forfeitures	-	314,133	-
Total Operating Revenues	4,770,629	2,186,337	5,339,958
Operating Expenses:			
Personnel Services	447,327	868,690	1,413,025
Casualty Loss	-	-	-
Insurance	9,102	26,961	8,349
Professional Services	195,573	233,362	704,752
Rent	53,577	2,075	649,076
Repairs and Maintenance	226,807	291,025	151,408
Supplies and Materials	41,380	33,575	360,819
Utilities and Bulk Energy	3,088,655	93,235	55,345
Depreciation	863,198	646,633	1,008,677
Other Current Expenses	13,408	1,165	(292,857)
Total Operating Expenses	4,939,027	2,196,721	4,058,594
Operating Income (Loss)	(168,398)	(10,384)	1,281,364
Nonoperating Revenues (Expenses):			
Investment Revenue	44,427	91,238	320,251
Gain (Loss) on Capital Assets	10,142	79	4,942
Rent/Operating Leases	4,014	600	19,368
Cost Recovery	-	-	-
Contributions	-	-	-
Miscellaneous	(32,906)	2,508	(7,235)
Federal Grants	-	-	-
State Grants	-	-	35,244
Interest Expense and Fiscal Agent Charges	-	(203,597)	-
Total Nonoperating Revenues (Expenses)	25,677	(109,172)	372,570
Income (Loss) Before Contributions and Transfers	(142,721)	(119,556)	1,653,934
Capital Contributions	157,310	-	-
Transfers In	-	-	-
Transfers Out	-	-	-
Change in Net Assets	14,589	(119,556)	1,653,934
Total Net Assets - January 1	15,612,918	8,963,363	11,255,852
Total Net Assets - December 31	\$ 15,627,507	\$ 8,843,807	\$ 12,909,786

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds

Change in Net Assets of Business-type Activities

City of Sioux Falls
Comprehensive Annual Financial Report
Year Ended December 31, 2006

**Statement of Revenues, Expenses, and Changes
in Net Assets - Proprietary Funds (cont)**

Enterprise Funds			Internal Service Funds
Water	Water Reclamation	Total	
\$ -	\$ -	\$ 10,108,677	\$ 19,008,206
		1,910	-
15,905,373	8,837,777	26,615,354	-
4,780	-	318,913	-
15,910,153	8,837,777	37,044,854	19,008,206
4,030,082	3,441,454	10,200,578	1,532,987
-	-	-	8,859,198
72,095	296,534	413,041	1,104,658
1,212,797	526,844	2,873,328	39,899
149,703	212,010	1,066,441	991,413
942,995	390,449	2,002,684	121,533
1,539,828	268,595	2,244,197	914,349
1,094,623	753,346	5,085,204	12,319
5,259,193	4,751,342	12,529,043	1,376,633
316,469	109,289	147,474	159,564
14,617,785	10,749,863	36,561,990	15,112,553
1,292,368	(1,912,086)	482,864	3,895,653
271,521	444,759	1,172,196	538,664
68,865	(2,610)	81,418	139,470
57,963	18,808	100,753	-
164,304	972,210	1,136,514	-
-	-	-	7,511
(17,298)	(47,224)	(102,155)	11,060
175,041	-	175,041	-
-	-	35,244	-
(755,382)	(689,837)	(1,648,816)	-
(34,986)	696,106	950,195	696,705
1,257,382	(1,215,980)	1,433,059	4,592,358
5,621,839	3,841,156	9,620,305	-
-	69,433	69,433	-
-	(512,194)	(512,194)	-
6,879,221	2,182,415	10,610,603	4,592,358
151,183,650	106,860,582		16,277,838
\$ 158,062,871	\$ 109,042,997		\$ 20,870,196
		555,831	
			\$ 11,166,434

City of Sioux Falls
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Statement of Cash Flows - Proprietary Funds

	Enterprise Funds	
	Electric Light	Public Parking
Cash Flows From Operating Activities:		
Receipts from Customers	\$ 3,598,113	\$ 1,811,469
Cash Receipts from Interfund Services Provided	1,189,083	67,383
Payments to Suppliers	(3,597,967)	(673,817)
Payment for Interfund Services Used	(34,534)	(4,212)
Payments to Employees	(428,726)	(815,141)
Claims Paid	-	-
Other Receipts	(29,903)	317,135
Net Cash Provided (Used) by Operating Activities	696,066	702,817
Cash Flows From Noncapital Financing Activities:		
Advance From Other Funds	-	(61,400)
Transfers In	-	-
Transfers Out	-	-
Net Cash Flows from Noncapital Financing Activities	-	(61,400)
Cash Flows From Capital and Related Financing Activities:		
Sale of Capital Assets	36,841	79
Purchase of Capital Assets	(1,212,295)	-
Interest Payments	-	(206,484)
Proceeds from Revenue Notes	-	-
Principal Payments-Revenue Notes	-	-
-Bonds	-	(330,000)
-Certificates of Participation	-	-
Net Cash Flows from Capital and Related Financing Activities	(1,175,454)	(536,405)
Cash Flows from Investing Activities:		
Payments Received on Notes Receivable	-	-
Sale and Maturity of Investments	-	-
Rent Received	4,014	600
Investment Revenue Received	44,556	81,268
Net Cash Flows from Investing Activities	48,570	81,868
Net Increase (Decrease) in Cash & Cash Equivalents During the Year	(430,818)	186,880
Cash and Cash Equivalents, January 1	1,482,972	2,077,171
Cash and Cash Equivalents, December 31	1,052,154	2,264,051
Less: Restricted Cash and Cash Equivalents	-	(507,500)
Cash And Cash Equivalents Per Balance Sheet	\$ 1,052,154	\$ 1,756,551
Reconciliation Of Operating Income To Net Cash Provided (Used) By Operating Activities:		
Operating Income (Loss)	\$ (168,398)	\$ (10,384)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	863,198	646,633
Amortization	-	9,384
(Accrements)	18,317	23,644
(Accruals)	2,320	-
(Decrease) Increase in Receivables	-	-
-Inventory	-	-
-Due From Other Funds	-	-
-Due From Other Governments	-	(1,196)
Increase (Decrease) in Accounts Payable	(6,319)	(6,015)
-Accrued Wages	3,632	4,438
-Prepaid Revenue	-	(15,800)
-Compensated Absences	14,969	49,111
-Deposits	1,176	495
-Other Accrued Liabilities	-	-
-Due To Other Funds	77	-
Other Revenue Sources (Uses)	(32,906)	2,507
Net Cash Provided (Used) by Operating Activities	\$ 696,066	\$ 702,817
Noncash Investing, Capital and Financing Activities:		
Capital Contributions	\$ 157,310	\$ -
Transfer of Capital Assets to Governmental Funds	-	-
Change in Fair Value of Investments	-	-

The notes to the financial statements are an integral part of this statement.

City of Sioux Falls
Comprehensive Annual Financial Report
Year Ended December 31, 2006

Statement of Cash Flows - Proprietary Funds (cont)

Sanitary Landfill	Enterprise Funds (cont)			Internal Service Funds
	Water	Water Reclamation	Total	
\$ 4,935,553	\$ 15,924,386	\$ 8,795,621	\$ 35,065,142	\$ 3,681,711
62,859	258,444	31,108	1,608,877	15,300,827
(1,675,671)	(5,544,207)	(3,116,190)	(14,607,852)	(3,386,205)
(5,660)	(59,940)	(265,471)	(369,817)	(57,770)
(1,342,327)	(4,088,893)	(3,361,068)	(10,036,155)	(1,516,936)
-	-	-	-	(8,859,198)
(295,228)	327,274	911,392	1,230,670	11,060
1,679,526	6,817,064	2,995,392	12,890,865	5,173,489
-	-	-	(61,400)	-
-	-	69,433	69,433	-
-	-	(362,682)	(362,682)	-
-	-	(293,249)	(354,649)	-
4,942	68,865	263	110,990	157,533
(3,232,480)	(7,898,659)	(23,785,348)	(36,128,782)	(1,470,598)
-	(734,500)	(404,903)	(1,345,887)	-
-	2,205,785	21,738,914	23,944,699	-
-	(1,769,474)	(1,705,350)	(3,474,824)	-
-	-	-	(330,000)	-
-	(1,695,000)	-	(1,695,000)	-
(3,227,538)	(9,822,983)	(4,156,424)	(18,918,804)	(1,313,065)
-	-	2,436	2,436	-
-	44,370	-	44,370	-
19,368	57,963	18,808	100,753	-
304,594	275,761	414,466	1,120,645	445,724
323,962	378,094	435,710	1,268,204	445,724
(1,224,050)	(2,627,825)	(1,018,571)	(5,114,384)	4,306,148
8,752,098	9,570,465	11,941,964	33,824,670	9,791,605
7,528,048	6,942,640	10,923,393	28,710,286	14,097,753
(5,204,251)	(307,388)	(7,415,381)	(13,434,520)	-
\$ 2,323,797	\$ 6,635,252	\$ 3,508,012	\$ 15,275,766	\$ 14,097,753
\$ 1,281,364	\$ 1,292,368	\$ (1,912,086)	\$ 482,864	\$ 3,895,653
1,008,677	5,259,193	4,751,342	12,529,043	1,376,633
-	9,352	-	18,736	-
(335,932)	(107,681)	(10,488)	(412,140)	(29,129)
4,806	54,062	(54,622)	6,566	(8,442)
356	12,000	-	12,356	-
(5,810)	-	(560)	(7,566)	3,461
(49,245)	34,087	(769,972)	(797,464)	(91,798)
3,843	22,375	19,192	53,480	6,793
-	-	-	(15,800)	-
66,855	(81,186)	61,194	110,943	9,258
950	(731)	-	1,890	-
(324,351)	-	-	(324,351)	-
-	1,178	(13,596)	(12,341)	-
28,013	322,047	924,988	1,244,649	11,060
\$ 1,679,526	\$ 6,817,064	\$ 2,995,392	\$ 12,890,865	\$ 5,173,489
\$ -	\$ 5,621,839	\$ 3,841,156		
-	-	(149,512)		
-	5,769	-		

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Comprehensive Annual Financial Report
December 31, 2006**

Statement of Fiduciary Net Assets - Fiduciary Funds

	Pension Trust Funds
Assets	
Cash and Cash Equivalents	\$ 3,651,797
Receivables:	
Accounts	397,892
Interest	717,083
Total Receivables	<u>1,114,975</u>
Investments at Fair Value:	
US Government	47,024,643
Foreign Obligations	942,152
Domestic Stocks	64,635,591
Foreign Stocks	5,885,023
Index Funds:	
Equity	59,064,800
Government / Corporate Bonds	31,943,194
Mutual Funds:	
Foreign Equity	70,376,212
Domestic Equity	31,850,867
Real Estate	<u>17,705,110</u>
Total Investments	<u>329,427,592</u>
Total Assets	<u>334,194,364</u>
Liabilities	
Accounts Payable	18,539
Accrued Wages	<u>6,221</u>
Total Liabilities	<u>24,760</u>
Net Assets	
Held in Trust for Pension and Health Benefits	<u>\$ 334,169,604</u>

The notes to the financial statements are an integral part of this statement.

**City of Sioux Falls
Comprehensive Annual Financial Report
Year Ended December 31, 2006**

Statement of Changes in Fiduciary Net Assets - Fiduciary Funds

	Pension Trust Funds
Additions	
Contributions	
Employer	\$ 8,071,408
Plan Members	2,712,091
Total Contributions	<u>10,783,499</u>
Investment Income (Loss)	45,844,783
Less Investment Expense	619,575
Net Investment Income (Loss)	<u>45,225,208</u>
Total Additions	<u>56,008,707</u>
Deductions	
Benefit Payments	
Pension	12,418,313
Health Premiums	958,436
Total Benefit Payments	<u>13,376,749</u>
Refunds	322,423
Administrative Expense	<u>215,451</u>
Total Deductions	<u>13,914,623</u>
Net Increase (Decrease)	42,094,084
Net Assets - Beginning	<u>292,075,520</u>
Net Assets - Ending	<u>\$ 334,169,604</u>

The notes to the financial statements are an integral part of this statement.

**City of Sioux Falls
Comprehensive Annual Financial Report
December 31, 2006**

Notes to Financial Statements

Note 1—Summary of Significant Accounting Policies

A. BASIS OF PRESENTATION

The financial statements of the City have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard-setting body for governmental accounting and financial reporting. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

B. REPORTING ENTITY

The City of Sioux Falls is a municipality chartered under the constitution of the State of South Dakota and is governed by a Council, including a full-time Mayor who is vested with the executive and administrative powers of the City, as well as eight part-time Council members who serve in a policy-making and legislative capacity.

The accompanying financial statements present the City and its component units. Blended component units are entities which are legally separate from the City but which are so intertwined with the City that they are, in substance, the same as the City. Discretely presented component units are entities for which the City is considered to be financially accountable or for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the City.

Blended Component Unit. The Sioux Falls Building Authority was organized by the City of Sioux Falls in 1986 for the purpose of financing, owning, and leasing property to meet the needs of the City. The Authority is governed by a board comprised of the members of the City's governing council. The Authority is reported as part of the Water enterprise fund.

The Sioux Falls Regional Emergency Medical Services Authority was created by the City of Sioux Falls in 1996 to provide oversight and set/review quality of service provided by all EMS responders within Sioux Falls. The Authority is governed by a five member board appointed by the Mayor and comprised of community members. The Authority board functions as an advisory board related to the area of ambulance service in the community. Health Department employees provide support to the Authority board, which operates as an advisory board to the City Council. The

Authority has no revenue, expenses, assets, or liabilities of its own; therefore, no financial data is presented for the Authority within this report.

Discretely Presented Component Unit. The Housing and Redevelopment Commission of the City of Sioux Falls, South Dakota (Housing Commission), was organized pursuant to the Municipal Housing and Redevelopment Act of South Dakota as a public housing agency formed to provide financial assistance for low-income public housing pursuant to the United States Housing Act of 1937 (42 United States Code Section 1431 et seq.). The Mayor appoints the five members of the governing board. However, the City has no further accountability for the Housing Commission. In 2006, the Community Development Special Revenue Fund provided \$217,035 of federal grant proceeds to the Housing Commission for housing assistance. The Housing Commission's fiscal year end presented in this report is September 30, 2006. Complete financial statements are available at the administrative offices located at 630 South Minnesota Avenue in Sioux Falls, South Dakota.

C. BASIC FINANCIAL STATEMENTS (GASB 34)

The basic financial statements are prepared in conformity with GASB Statement No. 34 and presented on both the government-wide and fund financial level. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

Government-wide Financial Statements

The government-wide financial statements, consisting of the statement of net assets and the statement of activities or changes in net assets, report information on all of the nonfiduciary activities of the primary government and its component units. As a general rule, the effect of interfund and internal service fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's enterprise funds and governmental and internal service funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a

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Notes to Financial Statements

given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Fund financial statements report information at the individual fund level. Each fund is considered to be a separate accounting entity. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and are detailed in the supplemental information.

D. FINANCIAL STATEMENT PRESENTATION

The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The City electively added the Entertainment Tax Fund as it has outstanding debt and the Community Development Fund due to significant federal grant funding. Both funds also have a specific community focus. The non-major funds are combined in a column in the fund financial statements and are detailed in the combining statements section.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenue sources include property and sales taxes, licenses and permits, state and county shared revenues, and charges for goods and services. In addition to general government, primary expenditures include public safety, highways and streets, health, library, and parks and recreation.

The Entertainment Tax Fund accounts for the collection of a 1 percent tax on lodging, prepared meals, and certain other "entertainment" items. This tax is used to retire the 1993 sales/use tax revenue bonds and subsequent refunding issues and to

provide operating funds for the Convention Center and Washington Pavilion of Arts and Science.

The Sales and Use Tax Fund accounts for capital improvement projects and debt service funded by the second cent (.92) of City sales tax.

The Community Development Fund accounts for all activities financed by the Community Development Block Grant funds and similar Federal grant and loan programs.

The Storm Drainage Fund accounts for the activities financed by drainage and storm sewer fees as well as expenditures of state revolving loans used to make capital improvements to the storm drainage system.

Other governmental (non-major) funds is a compilation of all of the non-major governmental funds. These include additional special revenue, capital projects, and permanent funds.

The government reports the following major proprietary funds:

The Electric Light Fund accounts for the activities of the government's electric distribution operations.

The Public Parking Facilities Fund accounts for the activities of the government's parking system which provides on- and off-street parking in the downtown area.

The Sanitary Landfill Fund accounts for the activities of the government's landfill operations.

The Water Fund accounts for the activities of the government's water distribution system.

The Water Reclamation Fund accounts for the activities of the government's wastewater collection and treatment system.

Additionally, the government reports the following fund types:

The permanent funds account for resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support specific programs.

The internal service funds account for health, workers' compensation, liability insurance, technology equipment and fleet management services provided to other departments of the government, or to other governments, on a cost reimbursement basis.

The pension trust funds account for the activities of the City Employee's Retirement System and the City Firefighters' Pension Fund, which accumulates resources for pension benefit payments to qualified City employees.

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Notes to Financial Statements

E. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded, regardless of the measurement focus.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. This focus concentrates on the fund's net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This focus concentrates on the fund's resources available for spending currently or in the near future. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except for certain debt service, compensated absences and claim and judgment expenditures.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise

funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then, unrestricted resources as they are needed.

F. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Cash Equivalents—

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

A pooled cash account is maintained for all City funds except for Community Development. Those funds that have an average negative balance in the cash account are charged interest at the rate earned by the pool. Interest earnings are allocated to those funds that have an average positive balance in the cash account.

Investments—

Investments are stated at fair value based on quoted market prices. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties.

Receivables and Payables—

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., current interfund loans) or "advances to/from other funds" (i.e., non-current interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in the applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectible accounts. This allowance is equal to estimated losses that may be incurred in collection of outstanding receivables.

Restricted Assets—

Assets whose use is restricted for construction, debt service, or the payment of specific claims and benefits have been classified as restricted assets as their use is limited by bond covenants or other externally imposed requirements.

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Notes to Financial Statements

Inventories and Prepaid Items—

Inventories for both governmental and business-type funds are stated using the weighted average method. The cost of inventory is recognized as an expense in both the fund and the government-wide financial statements when used (consumption method).

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets—

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, water and sewer lines, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$7,500, and estimated useful life in excess of one year. Additions or improvements that significantly add value to an asset such as extending the useful life of an asset or increasing its capacity or efficiency are capitalized. Other costs for repairs and maintenance are expensed as incurred. The cost of equipment in excess of \$5,000 is inventoried for purposes of federal grant reporting.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City chose to include all general infrastructure assets (those reported in the governmental activities), regardless of acquisition date or amount, using backtrending analysis to estimate historical costs.

Capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

Primary Government:

Buildings:	
Structures	40 years
Remodeling and renovation	15 years
Improvements other than buildings:	
Park improvements	10 - 30 years
Other	5 - 25 years
Machinery and equipment:	
Furniture and fixtures	10 - 20 years
Office equipment	5 - 10 years
Computer equipment	2 - 5 years
Library books	10 years
Vehicles	4 - 10 years
Heavy equipment	10 - 20 years
Utility system equipment	20 - 40 years

Other 5 - 20 years

Infrastructure:	
Streets	15 - 40 years
Traffic signals	15 years
Street and parking area lighting	15 years
Light distribution lines	40 years
Water distribution mains	50 years
Water reclamation lines	25 years
Storm drainage pipe	25 years
Other	20 - 50 years

Component Units:

Housing Commission:	
Buildings	25 - 40 years
Modernization improvements	15 years
Equipment	5 years
Furnishings	5 years

Net Assets/Fund Balance

The difference between assets and liabilities is "Net Assets" on the government-wide, proprietary and fiduciary fund financial statements, and "Fund Balance" on the governmental fund financial statements.

In the governmental fund financial statements, fund balances are classified as reserved, designated, or unreserved. Reserves represent those portions of fund balance that are not available to be appropriated for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Long-term Obligations—

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources.

Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**City of Sioux Falls
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Notes to Financial Statements

G. REVENUES AND EXPENDITURES/EXPENSES

Compensated Absences—

It is the City's policy to permit employees to accumulate earned but unused vacation, comp time, and sick pay benefits. The accumulation of unused vacation and comp time is limited based upon employee classification. Upon separation, the City will reimburse the employee for accumulated vacation and comp time not to exceed established maximums. The amount of unused sick leave accumulation is not limited. Upon retirement, or upon separation in good standing for employees not represented by a bargaining unit, the City reimburses eligible employees a portion of unused sick leave. All compensated absences are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. Vacation, comp time, and sick leave accruals are recognized as a long-term liability which will generally be liquidated from the General Fund. Thus, the governmental fund financial statements accrue vacation and comp time benefits only to the extent that they have matured due to retirement or separation from the City.

Grant Revenue—

The City recognizes grant revenues when all applicable eligibility requirements, including time requirements, are met. The City follows the policy that if expenditures of funds are the prime factor for determining eligibility for the grant funds, revenue is recognized at the time of the expenditure.

Retirement and Other Post-Employment Benefits—

The City has two separate retirement plans covering substantially all full-time and regular part-time employees. It is the City's policy to fund the normal costs and amortization of the unfunded prior service costs and to account for such costs on the accrual basis (See Note 10).

Self-Insurance—

The City is self-insured for workers' compensation, unemployment compensation, property casualty losses (deductible portion only), and health-life benefits (up to \$250,000 per individual). Liabilities are recorded when a determinable claim or loss has been incurred and the amount of the loss can reasonably be estimated.

Deferred Revenue—

As sources of revenue become measurable, even though not currently available, they are generally recorded as a receivable and a deferred revenue in governmental funds. When the sources of revenue become available for use, they are recognized as revenue.

H. ACCOUNTING ESTIMATES

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that

affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2—Stewardship, Compliance, and Accountability

A. Compliance with Finance-Related Legal and Contractual Provisions

The City incurred no material violations of finance-related legal and contractual provisions.

B. Excess of Expenditures Over Appropriations at the Legal Level of Control

The City incurred no material excess of expenditures over appropriations at the legal level of control.

C. Net Assets/Fund Balance Deficits

The City had one fund with a negative fund balance in the amount of \$397,017. The non-major Tax Increment Financing Special Revenue Fund received a loan from the Sales and Use Tax Fund for the incurrence of costs that will be reimbursed by tax increments once projects are completed and incremental tax revenues are received. As such the fund has a liability as an advance due to other funds without a corresponding asset.

Note 3—Detailed Notes On All Funds

A. Deposits and Investments

The City maintains a pooled cash portfolio that is used by substantially all City funds using the pooled deposit and investment concept. This concept provides the City with the ability to maximize earnings on idle fund monies while ensuring that the liquidity needs of each fund are met and the integrity of the cash balances of each fund are preserved. This pool is governed by an investment policy established by the City Council. The pool consists of checking accounts, savings accounts, certificates of deposit, and securities guaranteed either directly or indirectly by the United States Government, including money market accounts, which are stated at market value. Fund equity in the pool is shown as cash and cash equivalents in all financial statements.

Governmental and Business-Type Funds

Investment Policy: The City has an adopted investment policy, conforming to all applicable laws of the State of South Dakota, which serves as the guide to the deposit and investment of operating funds which are managed within the City's pooled cash portfolio. This policy sets forth the City's investment objectives as well as authorized and suitable deposits and investments, and serves as a guide for proper diversification, maturity constraints, internal controls, and performance measurement. The foremost objective of the City's investment program as set forth by the investment policy is safety of principal. Investment decisions are made

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under the assumption that, except under limited circumstances, all investments within the pooled cash portfolio will be held to maturity.

There are certain deposits and investments that are held in trust for debt service or for specific purposes outside of the pooled cash portfolio and the adopted investment policy. These assets are governed by state law (SDCL 4-5-6) which sets forth eligible deposits and investments for the City. The same deposits and investments are allowed under both the City's investment policy and state law.

Allowable deposits and investments include:

- a. Securities issued by the United States Treasury
- b. Securities issued by government-sponsored enterprises (GSE's) or federally related institutions that are guaranteed directly or indirectly by the U.S. government (U.S. Agencies).
- c. Mutual and money market funds that invest in (a) or (b)
- d. Repurchase agreements fully collateralized by (a) or (b)
- e. Certificates of Deposits (100% collateralized)
- f. Deposit and Savings Accounts (100% collateralized)

Credit Risk. The credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's pooled cash investment policy allows for the investment in individual securities with maturities of five years or less from the date of purchase, and mutual and money market funds holding securities with maturities of five years or less. Outside of the pooled cash portfolio, the City does have a very small number of Governmental National Mortgage Association pooled securities with maturities in excess of 5 years. The chart below summarizes the credit quality of the City's investment holdings.

Custodial Credit Risk. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. City deposits in excess of depository insurance must be 100 percent collateralized. Collateral is valued at the lower of cost or market as reported in the quarterly call reports prepared by the qualified public depositories pursuant to SDCL 4-6A. Collateral is required to be segregated by each depository as approved by the South Dakota Public Protection Commission. Collateral may not be held in any safety deposit vault owned or controlled either directly or indirectly by the pledging financial institution but must be deposited for safekeeping in a financial institution that is a member of the Federal Reserve. As of December 31, 2006, the deposits of the City were \$65.7 million. No depository fell below the 100 percent of pledged collateral required as of December 31, 2006. Other investments are held for safekeeping in the City's name by Treasury Direct or by a qualified bank or trustee pursuant to SDCL 4-5-9.

Concentration of credit risk. Concentration risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The City's pooled cash investment policy limits the City pooled cash portfolio to hold no more than 20 percent of the total pool investments in the deposit of a single financial institution and the exposure to federal agency securities, secured directly or indirectly, to no more than 40 percent of the total portfolio. No institution exceeded these established limits as of December 31, 2006.

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The below chart summarizes the City's deposits and investments using segmented time distribution.

Deposit/Investment Type	Credit Rating	Fair Value	Less Than			5 or more Years
			1 Year	1-3 Years	3-5 Years	
(a) U.S. Treasury Securities	TSY	\$ 14,763,438	\$ 2,967,188	\$ 11,796,250	\$ -	\$ -
(b) U. S. Agency Securities	AAA*	30,640,323	11,652,239	6,851,195	12,072,520	64,369
(c) Money Market Funds	N/A	330,391	330,391	-	-	-
(d) Repurchase Agreements	TSY**	1,099,500	-	1,099,500	-	-
(e) Certificates of Deposit	N/A	47,000,000	47,000,000	-	-	-
(f) Cash	N/A	18,007,900	18,007,900	-	-	-
Total		\$ 111,841,552	\$ 79,957,718	\$ 19,746,945	\$ 12,072,520	\$ 64,369

* All agency securities are either Government National Mortgage Association (Ginnie Mae), Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), or Federal Home Loan Bank System.
** The underlying securities are U.S. Treasury Notes

Component Unit

The Housing and Redevelopment Commission falls under South Dakota statutes (SDCL) 11-7-31, with supplementary authority granted under SDCL 4-5-6, in regards to permitted deposits and investments. The Commission has no further investment policy as to interest, credit, or concentration risk.

As of September, 30, 2006, the deposits of the Authority were fully insured or collateralized as required by SDCL 4-6A. All deposits as of September 30, 2006, are in certificates of deposit.

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Fiduciary Funds

Investment Policy:

The pension trust funds are governed by the prudent person rule, that is, the Board of Trustees should use the same degree of skill, care, prudence and diligence, under the circumstances then prevailing, of a prudent person, familiar with such matters and acting in a similar capacity as set forth by state law (SDCL 9-16-5.10 and City Ordinance Section 35). Under this standard, the Board of Trustees has an established investment policy which outlines the distinction of responsibilities, prohibitions, diversification, and performance measurement standards.

The policy prohibits the use of any securities whose effect would be to leverage the portfolio or whose expected returns are significantly unlike those expected from their appropriate asset classes.

Deposits and Investments as of December 31, 2006, consisted of the following:

Fiduciary Fund Investments		Fair Value
Cash Deposits		\$ 736,184
Money Market Fund		2,915,613
U.S. Treasury & Agency Obligations		47,966,795
Domestic Fixed Income - Index Funds		31,943,194
Domestic Stock - Separate Management		64,635,591
Domestic Stocks - Index Funds:		59,064,800
Domestic Stocks - Mutual Funds		31,850,867
International Stocks - Separate Management		5,885,023
International Stocks - Mutual Funds		70,376,212
Real Estate - Mutual Funds		17,705,110
Total Fiduciary Fund Deposits and Investments		\$ 333,079,389

Custodial Credit Risk. The cash deposits of the fiduciary funds are held by the City within the general deposit cash account and subject to the same requirements as discussed for the governmental and business-type funds.

Credit Risk: In addition to a diversified index fund, the City uses one separately managed account for the management of fixed income securities. The investment policy requires that all individual securities separately managed must be rated "A" or better at the time of purchase. As of December 31, 2006, the separately managed portfolio consisted of the following securities:

Name	Rating	Amount	Effective Duration
U.S. Treasuries	TSY	\$ 47,024,643	11.1 yrs.
U.S. Agency for International Development	TSY	942,152	7.0 yrs.
Total		\$ 47,966,795	

The City's money market account for temporary cash held within the fiduciary funds has an average maturity of 33 days. There are no restrictions on the type of investments within the money market account; however, the account is AAA rated.

Concentration Risk: The City's investment policy prohibits the separately managed fixed income account to holding no more than five percent of the portfolio's market value in the securities of a single issuer or related issuer with the exception of U.S. guaranteed debt. There are no further concentration restrictions.

Foreign Currency Risk: Foreign currency is the risk that changes in exchange rates will adversely affect the fair value of an investment. The City prohibits the use of individual bonds which do not pay in U.S. dollars within the separately managed fixed income account.

B. Property Tax

Real property tax levies are established on or before October 1 of each year. Taxes are recorded as receivable, levied, and attached as an enforceable lien on property as of January 1 of each year. Taxes are payable in two installments on or before April 30 and October 31 of that year. The County bills and collects the City taxes and remits them to the City. The City accrues all delinquent property tax revenues received within 30 days after December 31. No accrual for the property tax levy becoming due in January of 2007 is included in the accompanying financial statements, since such taxes are collected to finance expenditures budgeted for the subsequent period.

The City is permitted by State statute to levy an increase of no more than the lesser of three percent or the index factor, as defined in the statutes, over the amount of revenue receivable from real property taxes in the preceding year, excluding the amount levied pursuant to an affirmative two-thirds vote of the governing body. After applying the index factor, the City may increase the revenue from real property taxes above the limitations by the percentage increase of value resulting from any improvements or change in use of real property, annexation, minor boundary changes, and any adjustments in taxation of property separately classified and subject to statutory adjustments and reductions, only if assessed the same as property of equal value. Property tax revenue may also be increased for the scheduled payment increases on bonded indebtedness incurred prior to December 31, 1996, and for a levy directed by the order of a court for the purpose of paying a judgment against the City.

The combined tax rate to finance municipal services for the year ended December 31, 2006, was \$4.43 per \$1,000 of taxable valuation.

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C. Receivables

Receivables for the City's individual major funds and aggregate nonmajor, internal service, and fiduciary and component units in aggregate, including the applicable allowances for uncollectible accounts, are as follows at December 31, 2006:

Primary Government	Interest &		Special Assessments	Notes Receivable	Loans Receivable	Allowance for Uncollectibles		Total
	Taxes	Accounts	Penalty			Unbilled		
Governmental Activities								
General	\$ 729,715	\$ 1,800,998	\$ 680,465	\$ -	\$ -	\$ -	\$ (486,161)	\$ 2,725,017
Entertainment Tax	-	118,699	56,590	-	-	-	-	175,289
Sales/Use Tax	-	-	17,657	1,421,861	1,293,483	-	-	2,733,001
Community Development	-	-	13,766	-	425,211	16,502,812	-	(141,927) 16,799,862
Storm Drainage	-	38,816	38,513	-	-	-	-	77,329
Nonmajor Funds	-	2,347	36,551	-	-	-	(47)	38,851
Internal Service Funds	-	360,584	186,626	-	-	-	-	547,210
Total Governmental Activities	729,715	2,321,444	1,030,168	1,421,861	1,718,694	16,502,812	(628,135)	23,096,559
Business-type Activities								
Electric Light	-	394,234	13,677	-	-	194,526	(25,758)	576,679
Public Parking Facilities	-	1,196	29,372	-	-	-	(968)	29,600
Sanitary Landfill	-	704,334	97,410	-	-	-	(14,755)	786,989
Water	-	745,239	90,581	271,480	-	613,590	(32,660)	1,688,230
Water Reclamation	-	678,703	141,864	-	-	525,122	(55,685)	1,290,004
Total Business-type Activities	-	2,523,706	372,904	271,480	-	1,333,238	(129,826)	4,371,502
Fiduciary Funds								
Employee's Retirement	-	290,453	525,700	-	-	-	-	816,153
Firefighters' Pension	-	107,439	191,383	-	-	-	-	298,822
Total Fiduciary Funds	-	397,892	717,083	-	-	-	-	1,114,975
Total Primary Government	\$ 729,715	\$ 5,243,042	\$ 2,120,155	\$ 1,693,341	\$ 1,718,694	\$ 16,502,812	\$ 1,333,238	\$ (757,961) \$ 28,583,036
Non current portion	\$ -	\$ -	\$ -	\$ 1,574,988	\$ -	\$ 16,299,004	\$ -	\$ 17,873,992
Component Unit								
Housing Commission	\$ -	\$ 71,114	\$ 11,613	\$ -	\$ 239,817	\$ -	\$ -	\$ 322,544

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D. Due from other Governments

Amounts Due from Other Governments include the following at December 31, 2006:

	Due from			
	Federal	State	Local	Total
Primary Government:				
Governmental Activities				
General Fund	\$ 8,110	\$ 2,100,804	\$ 56,161	\$ 2,165,075
Entertainment Tax	-	165,999	-	165,999
Sales/Use Tax	70,400	1,443,075	-	1,513,475
Railroad Relocation	-	75,214	-	75,214
Transit	-	1,064	10,025	11,089
Storm Sewer	7,155	16,298	-	23,453
Total Governmental Activities	85,665	3,802,454	66,186	3,954,305
Business-type Activities				
Enterprise Funds				
Public Parking Facilities	1,509	3,355	-	4,864
Landfill	1,303	411	14,194	15,908
Water Reclamation	-	-	560	560
Total Enterprise Funds	2,812	3,766	14,754	21,332
Internal Service Funds				
Fleet Revolving	-	-	15,198	15,198
Total Internal Service Funds	-	-	15,198	15,198
Total Primary Government	\$ 88,477	\$ 3,806,220	\$ 96,138	\$ 3,990,835
Component Unit				
Housing Commission	\$ 119,306	\$ -	\$ -	\$ 119,306

E. Interfund Receivables and Payables

Interfund receivables and payables result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

The composition of individual interfund receivable and payable balances at December 31, 2006, was as follows:

Due to/from other funds:		
Receivable fund	Payable fund	Amount
General Fund	Storm Drainage	\$ 5,809
Sales/Use Tax	Storm Drainage	1,500
Landfill	Water	1,178
	Water Reclamation	2,685
		3,863
Water	Electric Light	2,760
	Water Reclamation	13,888
		16,648
		\$ 27,820
Advance to/from other funds:		
Receivable fund	Payable fund	Amount
Sales/Use Tax	Public Parking Facilities	\$ 122,800
	T.I.F. District	400,000
		\$ 522,800

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F. Interfund Transfers

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The financial statements reflect interfund transfers as follows:

	Transfer in:							General Capital Assets	Total
	General Fund	Sales and Use Tax	Community Development	Nonmajor Governmental Funds	Water Reclamation				
Transfer out:									
General Fund	\$ -	\$ -	\$ 254,500	\$ 2,350,000	\$ -	\$ -	\$ -	\$ 2,604,500	
Entertainment Tax	87,575	-	-	-	-	-	-	-	87,575
Sales/Use Tax	-	-	-	-	69,433	-	-	-	69,433
Community Development	343,202	-	-	-	-	-	-	-	343,202
Water Reclamation	-	362,682	-	-	-	-	149,512	-	512,194
	\$ 430,777	\$ 362,682	\$ 254,500	\$ 2,350,000	\$ 69,433	\$ 149,512	\$ 3,616,904		

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G. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Transfers & Retirements	Ending Balance
Primary Government:				
Governmental Activities:				
Non-Depreciable Assets:				
Land	\$ 106,924,260	\$ 5,261,750	\$ -	\$ 112,186,010
Intangibles (Rights)	879,669	71,545	-	951,214
Construction in Progress	15,672,693	89,581,001	(90,370,893)	14,882,801
Depreciable Assets:				
Buildings	134,536,349	3,786,476	(43,067)	138,279,758
Improvements other than Buildings	97,045,812	4,944,224	(1,706,386)	100,283,650
Equipment	58,124,563	5,050,615	(4,082,405)	59,092,773
Infrastructure	418,967,257	80,360,043	(3,336,851)	495,990,449
Totals at Historical Cost	<u>832,150,603</u>	<u>189,055,654</u>	<u>(99,539,602)</u>	<u>921,666,655</u>
Accumulated Depreciation				
Buildings	(43,931,118)	(5,379,395)	24,907	(49,285,606)
Improvements other than Buildings	(52,258,857)	(2,599,681)	1,252,347	(53,606,191)
Equipment	(34,925,927)	(4,838,816)	3,314,341	(36,450,402)
Infrastructure	(167,730,393)	(10,392,857)	3,158,174	(174,965,076)
Total Accumulated Depreciation	<u>(298,846,295)</u>	<u>(23,210,749)</u>	<u>7,749,769</u>	<u>(314,307,275)</u>
Governmental Activities Capital Assets, net	<u>\$ 533,304,308</u>	<u>\$ 165,844,905</u>	<u>\$ (91,789,833)</u>	<u>\$ 607,359,380</u>
Business-type Activities:				
Non-Depreciable Assets:				
Land	\$ 10,512,139	\$ 215,654	\$ -	\$ 10,727,793
Intangibles (Rights)	5,806,088	3,965,422	-	9,771,510
Construction in Progress	12,331,504	45,566,741	(25,002,179)	32,896,066
Depreciable Assets:				
Buildings	23,191,241	384,063	-	23,575,304
Improvements other than Buildings	21,557,970	2,518,135	-	24,076,105
Equipment	30,609,366	1,860,854	(1,566,398)	30,903,822
Infrastructure	334,120,460	16,662,518	(155,706)	350,627,272
Totals at Historical Cost	<u>438,128,768</u>	<u>71,173,387</u>	<u>(26,724,283)</u>	<u>482,577,872</u>
Accumulated Depreciation				
Buildings	(5,519,488)	(696,383)	-	(6,215,871)
Improvements other than Buildings	(10,464,707)	(1,537,067)	-	(12,001,774)
Equipment	(15,591,545)	(1,504,469)	991,880	(16,104,134)
Infrastructure	(102,540,816)	(8,791,121)	129,007	(111,202,930)
Total Accumulated Depreciation	<u>(134,116,556)</u>	<u>(12,529,040)</u>	<u>1,120,887</u>	<u>(145,524,709)</u>
Business-type Activities Capital Assets, net	<u>\$ 304,012,212</u>	<u>\$ 58,644,347</u>	<u>\$ (25,603,396)</u>	<u>\$ 337,053,163</u>
Total Primary Government Capital Assets, net	<u>\$ 837,316,520</u>	<u>\$ 224,489,252</u>	<u>\$ (117,393,229)</u>	<u>\$ 944,412,543</u>

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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	Amount
General Government	\$ 1,458,087
Public Safety	1,574,016
Highways & Streets	10,550,495
Health	74,313
Culture & Recreation	7,364,606
Urban & Economic Development	812,599
Capital Assets Held By The Government's Internal Service Funds	<u>1,376,633</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 23,210,749</u>
Business-type Activities:	
Electric Light	\$ 863,198
Public Parking Facilities	646,633
Sanitary Landfill	1,008,677
Water	5,259,193
Water Reclamation	<u>4,751,342</u>
Total Depreciation Expense - Business type Activities	<u>\$ 12,529,043</u>

Component Unit	Beginning Balance	Additions	Retirements	Ending Balance
Housing Commission				
Non-Depreciable Assets:				
Land	\$ 504,280	\$ -	\$ -	\$ 504,280
Depreciable Assets:				
Buildings	3,667,556	-	-	3,667,556
Equipment	777,176	18,425	-	795,601
Infrastructure	<u>39,467</u>	<u>-</u>	<u>-</u>	<u>39,467</u>
Totals at Historical Cost	4,986,945	18,425	-	5,006,904
Less Accumulated Depreciation:				
Buildings	(1,771,148)	(128,317)	-	(1,899,465)
Equipment	(512,839)	(28,225)	-	(541,064)
Infrastructure	<u>(8,176)</u>	<u>(2,276)</u>	<u>-</u>	<u>(10,452)</u>
Total Accumulated Depreciation	(2,126,506)	(158,818)	-	(2,450,981)
Total Component Unit Capital Assets, net	\$ 2,860,439	\$ (140,393)	\$ -	\$ 2,555,923

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Projects included in construction in progress for the primary government along with construction improvement commitments to be financed from encumbrances and unreserved fund balances carried forward into future years are as follows:

Project	Project Authorization	Expended to 12/31/2006	Committed
Orpheum Theatre Renovation	\$ 1,206,781	\$ 1,026,577	\$ 180,204
Arena HVAC Modifications	149,350	13,660	135,690
Carnegie Fire Protection System	60,771	326	60,445
City Hall Fire Protection System	300,760	27,544	273,216
Renovation of City Buildings	6,001	5,282	719
Evidence and Record Storage Building	152,331	-	152,331
Engineering Infrastructure Projects	5,510,229	2,957,770	2,552,459
Railroad Relocation	1,924,786	-	1,924,786
Fire Station #10	37,953	-	37,953
Restore Fire Hose Tower	11,900	11,900	-
Fire Station #5	2,175	2,175	-
Fire Rescue Equipment	219,330	219,330	-
Warning Siren Poles	2,396	2,396	-
City/County Health and Human Services Building	6,543,053	3,305,066	3,237,987
Downtown Historical Revival	319,730	-	319,730
Land Acquisition-Planning	5,777	-	5,777
Sculpture Walk	15,750	-	15,750
Central Library Replacement	205,248	57,397	147,851
Light Projects	1,593,709	34,053	1,559,656
Arboretum Park	19,700	19,700	-
Bike Trail Construction/Reconstruction	105,350	21,478	83,872
Dugan Park	2,957	-	2,957
East Park/School Site Development	315,000	-	315,000
Elmwood Park	24,800	18,600	6,200
Falls Park	121,824	11,960	109,864
Fawick Park	4,600	4,600	-
Great Bear Improvements	15,000	2,926	12,074
Great Plains Zoo Asian Cat Building	492,345	-	492,345
Great Plains Zoo Bird Aviary	129,719	-	129,719
Great Plains Zoo Primate Exhibit	705,143	-	705,143
Great Plains Zoo Waterfowl Exhibit	166,455	-	166,455
Great Plains Zoo Master Plan	250,000	13,492	236,508
Green Hills Park Development	52,080	3,250	48,830
Harmodon Park	494,220	1,611	492,609
Jefferson Park	6,280	6,280	-
Legacy Park	10,250	10,250	-
Park Roads and Parking Lot Improvements	381,881	249,724	132,157
Prairie Meadows Park	15,450	-	15,450
McKenna Park	41,301	17,631	23,670
Memorial Park	7,358	7,358	-
Oak View Park	5,150	2,750	2,400
Pioneer Park Spray Pool	476,806	416,938	59,868
Platinum Valley Park	41,913	22,552	19,361
Riverfront Greenway Improvements	59,900	-	59,900
Sherman Park	902,202	838,021	64,181
Thelin Park	8,960	3,500	5,460
Veterans Memorial Park	853,896	766,150	87,746
Yankton Trail Park	178,451	-	178,451
Landfill Land Acquisition	186,798	-	186,798
Landfill Wetland Mitigation	165,057	165,057	-
Landfill Expansion	153,000	2,920	150,080
Landfill Compost Pad	233,692	-	233,692
Landfill Closure	280,442	-	280,442
Landfill Leachate Pilot Project	1,015,318	591,128	424,190
Convention Center Security System	9,793	-	9,793
Transit GPS	872	872	-
Washington Pavilion Artist Studio Elevator	90,000	28,210	61,790
Washington Pavilion Long Range Exhibit Planning	48,970	48,970	-
Storm Sewer Projects	10,680,067	4,716,604	5,963,463
Storm Drainage Land Acquisition	19,950	19,950	-
Water Projects	6,950,561	2,170,277	4,780,284
Water Reclamation Projects	50,213,751	29,932,631	20,281,120
	\$ 94,205,292	\$ 47,778,867	\$ 46,426,425

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H. Long-Term Liabilities

Changes in Long-Term Liabilities

The following is a summary of changes in long-term debt, including the current portion, of the City of Sioux Falls for the year ended December 31, 2006.

	<u>Balance Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Ending</u>	<u>Due Within One Year</u>
Primary Government					
Governmental Activities:					
Bonds Payable:					
Revenue	\$ 41,615,000	\$ -	\$ 12,365,000	\$ 29,250,000	\$ 3,310,000
Obligations Under Capital Leases	930,314	-	110,085	820,229	-
Notes Payable	9,823,632	24,412,814	119,188	34,117,258	88,299
Total Debt	52,368,946	24,412,814	12,594,273	64,187,487	3,398,299
Accrued Compensated Absences					
Governmental Funds	8,425,537	5,044,381	4,945,346	8,524,572	4,950,000
Internal Service Funds	160,040	110,119	100,862	169,297	100,000
Total Governmental Activities	60,954,523	29,567,315	17,640,482	72,881,356	8,448,299
Business-type Activities:					
Bonds Payable:					
Revenue	3,650,000	-	330,000	3,320,000	345,000
Certificates of Participation	1,695,000	-	1,695,000	-	-
Revenue Notes Payable	33,958,769	23,944,701	3,474,824	54,428,646	4,002,399
Total Debt	39,303,769	23,944,701	5,499,824	57,748,646	4,347,399
Accrued Compensated Absences	1,658,038	779,587	668,643	1,768,982	670,000
Total Business-type Activities	40,961,807	24,724,288	6,168,467	59,517,628	5,017,399
Total Primary Government	<u>\$ 101,916,330</u>	<u>\$ 54,291,603</u>	<u>\$ 23,808,949</u>	<u>\$ 132,398,984</u>	<u>\$ 13,465,698</u>
Component Unit					
Housing Commission					
Revenue Notes Payable	\$ 702,423	\$ -	\$ 26,954	\$ 675,469	\$ 28,493
Accrued Sick Leave	50,486	43,258	30,292	63,452	30,049
Total Component Unit	<u>\$ 752,909</u>	<u>\$ 43,258</u>	<u>\$ 57,246</u>	<u>\$ 738,921</u>	<u>\$ 58,542</u>

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Individual Debt Issues by Fund

The following is a summary of the individual debt issues, listed by fund, of the City of Sioux Falls for the year ended December 31, 2006.

PRIMARY GOVERNMENT Governmental Activities Revenue Bonds & Notes	Purpose	Outstanding Interest Rate	Maturity Date	Authorized Not Issued Amount	Issue Amount	Amount Outstanding	Maximum Annual Debt Service
Sales & Use Tax Fund							
Series 2001A Sales Tax	* Public Safety Construction	4.25-5.50%	2010	\$ -	\$ 10,995,000	\$ 6,815,000	\$ 2,427,650
State Revolving Note #20	Storm Drainage Construction	1.50%	2017	667,827	25,281,522	25,281,522	n/a
State Revolving Note #22	* Storm Drainage Construction	2.50%	2017	2,588,865	7,961,135	7,961,135	n/a
Total Sales & Use Tax				3,256,692		40,057,657	2,427,650
Entertainment Tax Fund							
Series 2001B Ent/Sales Tax	* Partial Refunding (1993)	3.80-5.50%	2014	-	17,320,000	17,035,000	3,872,138
Series 2004 Ent/Sales Tax	* Partial Refunding (1993)	3.00%	2008	-	8,135,000	5,400,000	2,909,750
Total Entertainment Tax				-		22,435,000	6,781,888
Storm Drainage							
State Revolving Note #17	System Construction	3.50%	2015	-	561,320	468,362	66,608
State Revolving Note #19	System Construction	2.50%	2016	-	415,785	406,239	47,079
Total Storm Drainage				-		874,601	113,687
Total Revenue Bonds & Notes				3,256,692		63,367,258	9,323,225
Other Long-Term Liabilities							
Obligations Under Capital Lease	Health Dept. Building	8.49%	2014	-	1,290,902	765,980	123,467
Obligations Under Capital Lease	Land at Falls Park	5.00%	2007	-	155,000	54,250	56,962
Total Debt				3,256,692		64,187,488	9,503,654
Vested Compensated Absences	Accrued Vacation & Sick Leave			n/a		8,693,869	n/a
Total Governmental Activities				\$ 3,256,692		\$ 72,881,357	\$ 9,503,654
Business-type Activities							
Revenue Bonds & Notes							
Public Parking							
Series 2000 Parking System	Parking Construction	4.90-5.60%	2014	\$ -	5,075,000	\$ 3,320,000	\$ 526,007
Water							
State Revolving Note #1	System Construction	4.50%	2010	-	6,496,745	2,789,145	812,458
State Revolving Note #2	System Construction	4.50%	2013	-	2,348,168	1,587,981	292,896
State Revolving Note #3	System Construction	3.50%	2014	-	7,930,000	6,166,321	938,374
State Revolving Note #4	System Construction	3.50%	2015	-	279,599	237,130	33,217
State Revolving Note #5	System Construction	2.50%	2016	4,909,786	7,839,214	7,684,540	793,805
Total Water				4,909,786		18,465,117	2,870,750
Water Reclamation							
State Revolving Note #1	* System Construction	3.00%	2012	-	2,836,963	969,478	188,802
State Revolving Note #11	System Construction	4.50%	2007	-	1,195,346	12,361	148,892
State Revolving Note #12	System Construction	4.50%	2007	-	1,300,000	67,232	163,179
State Revolving Note #13	System Construction	4.50%	2008	-	2,083,137	422,457	291,778
State Revolving Note #14	System Construction	4.50%	2012	-	4,431,766	2,958,591	608,240
State Revolving Note #15	System Construction	3.50%	2014	-	1,467,706	1,191,725	174,162
State Revolving Note #16	System Construction	3.50%	2015	157,044	2,322,456	2,107,326	299,692
State Revolving Note #18	System Construction	2.50%	2016	709,740	3,241,260	3,198,136	374,305
State Revolving Note #21	System Construction	2.25%	n/a	15,025,516	22,351,902	22,351,903	n/a
State Revolving Note #23	* System Construction	2.50%	n/a	7,638,681	2,684,319	2,684,320	n/a
Total Water Reclamation				23,530,981		35,963,529	2,249,050
Total Debt				28,440,767		57,748,646	5,645,807
Vested Compensated Absences	Accrued Vacation & Sick Leave			n/a		1,768,982	n/a
Total Business-type Activities				\$ 28,440,767		\$ 59,517,628	\$ 5,645,807
COMPONENT UNIT							
Housing Commission							
SDHDA Note	Affordable Housing	0.00%	2025		695,690	\$ 626,047	\$ 40,224
Bank Note	Affordable Housing	6.50%	2008		221,500	49,422	25,200
Vested Compensated Absences						63,452	n/a
Total Housing Commission						\$ 738,921	\$ 65,424

* Secured by pledge of the second (.92%) penny sales and use tax.

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Revenue Bonds Payable

Bonds payable at December 31, 2006, consist of one issue backed and serviced solely by the second penny (.92) sales tax (Sales and Use Tax Fund) and two issues backed and serviced by the entertainment tax (Entertainment Tax Fund) and secondarily by the second penny sales tax (Sales and Use Tax Fund) and one issue backed and serviced by the revenues of the public parking system (Public Parking Enterprise Fund) as shown above.

Debt service requirements for these revenue bonds at December 31, 2006, are as follows:

Entertainment Tax			
Year	Principal	Interest	Total
2007	\$ 2,600,000	\$ 1,028,453	\$ 3,628,453
2008	2,850,000	950,177	3,800,177
2009	2,665,000	864,378	3,529,378
2010	3,035,000	749,782	3,784,782
2011	3,265,000	607,138	3,872,138
2012	3,410,000	427,562	3,837,562
2013	3,610,000	240,013	3,850,013
2014	1,000,000	55,000	1,055,000
Totals	\$ 22,435,000	\$ 4,922,503	\$ 27,357,503

Sales and Use Tax			
Year	Principal	Interest	Total
2007	\$ 710,000	\$ 315,387	\$ 1,025,387
2008	1,825,000	285,213	2,110,213
2009	2,220,000	207,650	2,427,650
2010	2,060,000	113,300	2,173,300
Totals	\$ 6,815,000	\$ 921,550	\$ 7,736,550

Public Parking			
Year	Principal	Interest	Total
2007	\$ 345,000	\$ 179,242	\$ 524,242
2008	360,000	161,648	521,648
2009	380,000	142,747	522,747
2010	400,000	122,608	522,608
2011	425,000	101,007	526,007
2012	445,000	78,058	523,058
2013	470,000	53,805	523,805
2014	495,000	27,720	522,720
Totals	\$ 3,320,000	\$ 866,835	\$ 4,186,835

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

Arbitrage provisions of the Internal Revenue Service require the City to rebate excess arbitrage earnings from bond proceeds to the federal government. Bond Counsel to the City is responsible for calculating arbitrage on a timely basis for each of the outstanding issues. As of December 31,

2006 the City had no arbitrage liability on outstanding bond issues.

Authorized Not Issued Sales Tax Revenue Bonds

The City is authorized to issue up to \$70 million, plus the cost of issuance and debt service reserve funds, in additional second penny sales tax revenue bonds (Sales and Use Tax Fund) for the prepayment of the City's share of the Lewis and Clark Rural Water System project described in Note 5. The authorization was adopted on December 18, 2006, and became effective subsequent to year-end on January 11, 2007. It is anticipated that the bonds will be issued and closed prior to May 31, 2007.

Obligations Under Capital Lease

The City has acquired certain land, buildings, and equipment under lease purchase agreements. The leases are treated as capital leases and the present value of the minimum lease payments is included in governmental debt. The balance includes buildings with an original capitalized value of \$1,424,763, all of which are included in the governmental activities.

Future minimum payments under capital leases consist of the following at December 31, 2006:

Capital Leases			
Governmental Activities			
Year	Principal	Interest	Total
2007	\$ 115,014	\$ 65,416	\$ 180,430
2008	66,128	57,339	123,467
2009	71,966	51,501	123,467
2010	78,320	45,147	123,467
2011	85,234	38,233	123,467
2012 - 2014	403,567	66,835	470,402
Totals	\$ 820,229	\$ 324,471	\$ 1,144,700

Notes Payable

The City has entered into several notes payable with the South Dakota Conservancy District, which have provided funds for construction and maintenance of the storm drainage, water, and water reclamation systems. These funds are drawn as construction progresses. Several notes have balances available that have not been drawn and are so noted on the individual debt table on page 57. A complete amortization schedule will be provided upon completion or partial completion of the draw term. Thus, future debt service cannot be accurately determined until all projects for each note are completed.

The Sales and Use Tax notes will be repaid with revenues from the Sales and Use Tax Fund. The outstanding balance of \$33,242,657 has not entered repayment and therefore has no amortization schedule at December 31, 2006.

The Sales/Use Tax Fund has \$3,256,692 available and undrawn notes payable from the South Dakota Conservancy District.

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The Storm Drainage notes will be repaid with revenues from the Storm Drainage Fund. The estimated debt service is as follows:

Storm Drainage			
Year	Principal	Interest	Total
2007	\$ 88,299	\$ 25,388	\$ 113,687
2008	91,055	22,632	113,687
2009	93,899	19,788	113,687
2010	96,833	16,853	113,686
2011	99,863	13,824	113,687
2012	102,989	10,698	113,687
2013	106,216	7,471	113,687
2014	109,546	4,141	113,687
2015	51,029	1,601	52,630
2016	34,872	437	35,309
Totals	\$ 874,601	\$ 122,833	\$ 997,434

The Storm Drainage Fund currently has no available and undrawn notes payable from the South Dakota Conservancy District.

The Water notes will be repaid with revenues from the Water Fund. The estimated debt service on these issues is as follows:

Water			
Year	Principal	Interest	Total
2007	\$ 2,368,557	\$ 576,447	\$ 2,945,004
2008	2,474,942	494,814	2,969,756
2009	2,565,252	404,504	2,969,756
2010	2,455,918	310,724	2,766,642
2011	1,920,857	236,441	2,157,298
2012	1,983,764	173,535	2,157,299
2013	1,826,674	110,952	1,937,626
2014	1,336,840	58,375	1,395,215
2015	870,988	30,128	901,116
2016	661,325	8,284	669,609
Totals	\$ 18,465,117	\$ 2,404,204	\$ 20,869,321

The Water Fund has \$4,909,786 available and undrawn notes payable from the South Dakota Conservancy District.

The Water Reclamation notes will be repaid with revenues from the Water Reclamation Fund. The estimated debt service is as follows:

Water Reclamation			
Year	Principal	Interest	Total
2007	\$ 1,633,842	\$ 343,129	\$ 1,976,971
2008	1,499,106	291,985	1,791,091
2009	1,404,574	240,628	1,645,202
2010	1,455,931	189,271	1,645,202
2011	1,509,259	135,943	1,645,202
2012	1,178,590	83,824	1,262,414
2013	793,277	54,882	848,159
2014	788,867	30,266	819,133
2015	386,605	12,674	399,279
2016	277,256	3,473	280,729
Totals	10,927,307	\$ 1,386,075	\$ 12,313,382
Issues With No Estimate Available	25,036,222		
Total	\$ 35,963,529		

The Water Reclamation Fund has \$15,892,300 available and undrawn notes payable from the South Dakota Conservancy District.

Component Unit

The Housing Commission notes will be repaid with revenues from property rentals. The estimated debt service on these issues is as follows:

Housing Commission			
Year	Principal	Interest	Total
2007	\$ 28,493	\$ 2,852	\$ 31,345
2008	30,170	1,175	31,345
2009	9,194	24	9,218
2010	17,508	-	17,508
2011	40,234	-	40,234
2012-2016	201,172	-	201,172
2017-2021	201,172	-	201,172
2022-2026	147,526	-	147,526
Totals	\$ 675,469	\$ 4,051	\$ 679,520

Accrued Compensated Absences

City employees are paid for accumulated vacation and sick leave upon retirement. Certain employees are also paid for a portion of excess sick leave on an annual basis. Accumulated vested compensated absences in governmental funds are recorded as a liability in the government-wide statements. Since this liability generally matures upon retirement, future maturities are not calculated.

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Legal Debt Limit

The City is subject to Article XIII, Section 4, of the South Dakota Constitution which limits the amount of bonded debt to a percent of the assessed valuation of the taxable property therein for the year preceding that in which said indebtedness is incurred. The categories are as follows:

1. Not to exceed 5 percent for the year preceding the year in which said indebtedness is incurred.
2. An additional indebtedness not to exceed 10 percent for the year preceding the year in which said indebtedness is incurred for the

purpose of providing water and sewage, for irrigation, domestic uses, sewerage, and other purposes upon a majority vote in favor thereof of the electors.

3. An additional indebtedness not to exceed 8 percent for the year preceding the year in which said indebtedness is incurred for the purpose of constructing street railways, electric lights, or other electric plants upon a majority vote in favor thereof of the electors.

Accordingly, at December 31, 2006, the City has an available legal debt limit as follows:

2006 Assessed Actual Value Subject to Taxation:			<u>\$ 8,178,948,410</u>		
Category	Legal Debt Limit		Net Bonded Debt Outstanding	Available Legal Debt Margin	
	Percent	Amount			
General Purpose 1	5.0%	\$ 408,947,421	\$ 121,936,134	\$ 287,011,287	
Special Purpose 2	10.0%	817,894,841		-	817,894,841
Special Purpose 3	8.0%	654,315,873		-	654,315,873
		<u>\$ 1,881,158,134</u>	<u>\$ 121,936,134</u>	<u>\$ 1,759,222,000</u>	

I. Operating Leases

The City is a party to several operating leases for equipment, office space, and landfill site. The City has not entered into any operating leases with noncancelable terms as of December 31, 2006. The total rental expense for operating leases for the year ended December 31, 2006, was approximately \$1,475,559.

Minimum future rentals do not include contingent rentals, which may be received during the lease period as stipulated in the various lease contracts.

Note 4—Joint Ventures/Related Organizations

The City of Sioux Falls is a party to four joint ventures as described below:

1. In 1980, the City of Sioux Falls and Minnehaha County under Articles of Agreement formed **Minnehaha Metro Area Communications** which is governed by a joint Council of the Mayor and one City Council member, two County Commissioners, and one other member appointed by the other four. Duties of Metro Communications include the responsibility of countywide public safety dispatch, maintenance of centralized dispatch records, and the maintenance and purchasing of related electronic communication equipment for public safety

departments of City/County government. The Metro budget is developed by the Council and approved by both the City Council and County Commission in joint session. The County has expenditure control over the budget and financial arrangements of Metro and includes Metro in their financial statements. These activities are recorded within the general fund of the County and, accordingly, individual financial statements are not available. Complete financial statements for Minnehaha County can be obtained at their administrative offices located at 415 North Dakota Avenue in Sioux Falls, South Dakota. There is no debt specifically related to Metro.

The City and County have entered into a subsequent joint cooperative agreement as of January 1, 2007, which will change the composition and structure of Metro Communications. Beginning on January 1, 2007, Metro Communications will become an administrative agency with its own standing, separate and apart from the governmental organizations of either the City or the County.

The agency will be governed by a five member Council which will include two members of the Minnehaha County Board of Commissioners appointed by the Commission Chair, the Mayor of Sioux Falls, and two members of the Sioux Falls

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City Council appointed by the Mayor. The Agency will continue to provide the same service as previously enumerated.

2. The City of Sioux Falls and Minnehaha County jointly provide funding for the **Historical Museum Trust**. The Trust provides for operation of all City- and County-owned museums. Participation in the venture is funded equally. The City contribution to the venture for the year ended December 31, 2006, was \$513,698 and is reflected as an expenditure in the General Fund. These activities are also recorded within the General Fund of the County and, accordingly, individual financial statements of the trust are not available. Complete financial statements for Minnehaha County can be obtained at their administrative offices located at 415 North Dakota Avenue in Sioux Falls, South Dakota. There is no debt specifically related to the trust. No future benefit or burden is anticipated other than the annual subsidy.

3. The City of Sioux Falls and Minnehaha County jointly provide funding for the **Siouxland Libraries**. The City received a subsidy of \$700,848 from the County for operations during 2006. All activities of the library are recorded in the General Fund.

The City is responsible for all of the board appointments of the **Sioux Falls Regional Airport Authority**; however, it has legally been determined that the City has no further accountability for the Authority.

Note 5—Jointly Governed Organizations

The City, in conjunction with 15 other municipalities and five rural water systems within South Dakota, Iowa, and Minnesota that provide drinking water to consumers, is a member of the Lewis and Clark Rural Water System, Inc. (The "System"). The System will collect, treat, and distribute drinking water to the entities involved upon completion. The City thinks that the System is a critical supplemental water source for the City's continued growth. The System's board of directors is comprised of 20 members, one from each participating entity. Under the articles of incorporation no member has a residual equity interest.

The City entered into an amended agreement with the System to increase the amount of drinking water from 10 million gallons per day to 28 million gallons per day to ensure that future supplemental water supply needs of the City can be met. In all, it is estimated that the City of Sioux Falls' share of the \$513.3 million (October 2006 dollars) System project is currently \$80.6 million (\$28.2 million for 10 million gallons per day of base system capacity, \$50.1 million for 17 million gallons in expanded system capacity, and \$2.3 million for 1.007 million gallons per day of additional unallocated base system capacity), in October 2006 dollars. The City's investment to date of \$9.7 million

(\$6.2 million in base costs and \$3.5 million in expanded system costs) is recorded in the Water enterprise fund as an intangible asset. Of this total remaining commitment, the City will be making a series of prepayment installments equal to \$64.281 million (see Note 6). Any remaining cost share above the prepayment amount will be made as part of a true-up upon completion of the project. The City is capitalizing an intangible asset to recognize the upfront payment to the System for the future option to purchase water. Such asset will be amortized over the estimated life-span upon the receipt of benefits from the System.

Note 6—Commitments and Contingencies

A. Commitments

At December 31, 2006, the City has commitments on construction projects totaling \$46,426,425 as detailed in Note 3 (G).

The City has also entered into a commitment for base and expanded system costs for the Lewis and Clark Water System as discussed in Note 5. An outstanding commitment of \$64.281 million, in 2006 dollars, for base and expanded system costs remains as of December 31, 2006. The actual commitment costs may be higher due to cost indexing, construction over-runs, and decreases in federal funding. Once complete, the City is committed to the purchase of 2,751,750 gallons of raw or treated water per day with stipulations. The amended and restated commitment agreement and raw water license agreement are available for further information regarding the City's outstanding commitment to the System.

The Lewis and Clark Rural Water System Board approved the first amendment to the amended and restated commitment agreement on February 22, 2007. This amendment provides for the prepayment of the City of Sioux Falls' allocated construction percentage which will stop construction inflation on the City's share of the \$64.281 million estimated project costs. The prepayment is to be made in three annual installments beginning in 2007. In anticipation of this action, the City authorized the issuance of sales tax revenue bonds as discussed in Note 3(H) (authorized not issued sales tax revenue bonds) in an amount not to exceed \$70 million plus the cost of issuance and debt service reserve funds.

The Electric Light Fund has a commitment to meet all of its power requirements by purchases from Heartland Consumers Power District until December 31, 2016 except for that part of its requirements that it is able to purchase from the Western Area Power Association.

The City has entered into a contract with the Department of the Army to construct a flood control structure to protect the City from future flooding of the Big Sioux River and Skunk Creek. The total project cost is estimated to be \$45,600,000, of which the City is responsible for a minimum of 25 percent, but not to exceed 50 percent. Total costs as of December 31, 2006, are \$22,732,633. The City's share is

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recorded in the Sioux Falls Flood Control Capital Projects Fund. The State of South Dakota has awarded a grant to the City for \$2,900,000 to help fund this project. As of December 31, 2006, the City has received \$1,270,759 from the State. Phase I of the project has been booked to capital assets. Phase II of the project remains in construction-in-progress.

The City has entered into fixed price refined fuel contract agreements with various entities. The agreements provide for a portion of the City's 2007 operating fuel needs with delivery to be accepted in March, April, and May of 2007 at various contract rates.

B. Contingent Liabilities

Litigation

The City is a defendant in various lawsuits. The City's legal counsel estimates that the potential claim against the City not covered by insurance resulting from such litigation would not materially affect the financial statements of the City. No reserve has been recorded for any such liability arising out of the current pending litigation.

Solid Waste Landfill Closure and Post-closure Care Costs

The City owns and operates a landfill site located west of the city. State and federal laws will require the City to close the landfill once its capacity is reached and to monitor and maintain the site for 30 subsequent years. The City recognizes a portion of the closure and post-closure care costs in each operating period even though actual payments will not occur until the landfill is closed. The amount recognized each year is based on the landfill capacity used as of December 31. The change in the liability for the year ended December 31, 2006 is as follows:

CHANGE IN LIABILITY		Amount
Balance at January 1		\$ 7,120,272
Costs incurred in 2006		(1,188,499)
Change in liability due to usage and revision of estimates		864,148
Balance at December 31		<u>\$ 6,795,921</u>

As of December 31, 2006, the City estimates are as follows:

Site	Used to date	Recognized Liability	Remaining	
			Liability	Life (Years)
Solid Waste #1	94.7%	\$ 6,613,614	\$ 372,979	2.7
Solid Waste #2	0.8%	18,347	2,112,627	35.0
Rubble/Asbestos	21.0%	163,960	615,072	31.0
Totals		<u>\$ 6,795,921</u>	<u>\$ 3,100,678</u>	

The remaining estimated liability for these costs will be recognized as the remaining capacity is used. The estimated costs of closure and postclosure care are subject

to changes such as the effects of inflation, revision of laws, and other variables.

By local ordinance as well as state and federal laws, the City is required to establish a fund to accumulate assets needed for the actual payment of closure and postclosure care costs. Currently, assets reported as restricted cash and cash equivalents on the combined balance sheet that total \$5,204,251 are held for this purpose.

Note 7—Risk Management

The City's risk management activities are recorded in the City Health/Life Benefit, Workers' Compensation, Unemployment Compensation, and Insurance Liability Pool Funds. The purpose of these funds is to administer employee life, health, property and liability, worker's compensation, and unemployment insurance programs of the City on a cost-reimbursement basis. These funds account for the risk financing activities of the City but do not constitute a transfer of risk from the City.

Significant losses are covered by commercial insurance for all major programs except workers' compensation, for which the City retains the risk of loss. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for this year or the prior two years.

The City has reported approximate aggregate liabilities in the Health/Life Benefit Fund as follows:

	2005	2006
Balance January 1	\$ 1,100,000	\$ 1,100,000
Claims incurred during the year	8,214,519	8,533,893
Payments on claims during the year	(8,214,519)	(8,533,893)
Balance December 31	<u>\$ 1,100,000</u>	<u>\$ 1,100,000</u>

The Workers' Compensation Fund has designated cash of \$1,674,101 at December 31, 2006, which represents the present value of known claims against the fund.

The Housing Commission manages its risk by purchasing insurance from commercial insurance carriers for liability, workers' compensation, and employee health insurance. Paying into the unemployment compensation fund established by state law, and managed by the State of South Dakota, covers unemployment benefits.

Note 8—Conduit Debt Obligations

From time to time, the City has issued Industrial Revenue/Economic Development Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are not general obligations, but are special, limited obligations, of the issuer, payable solely out of the revenues derived from the Agreement and pledged and assigned for their payment in accordance with the indenture. Neither the City, the State,

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nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2006, there were five series of Industrial Revenue/Economic Development Bonds outstanding, with an aggregate principal amount payable of \$52,712,000.

Note 9—Prior Period Adjustments and Subsequent Events

Upon evaluation of accrued compensated absences on the governmental balance sheets as of December 31, 2005; the City has determined that the amount of current liability to be defeased with available resources should be restated and moved to long-term liabilities within the government-wide financial statements to be more reflective of current retirement patterns in accordance with Statement No. 16 of the Governmental Accounting Standards Board.

The City Council authorized the issuance of up to \$35 million in additional second penny (.92) sales tax revenue bonds (Sales and Use Tax Fund) as anticipated within the 2007-2011 Capital Improvement Program adopted in 2006. This bond is being issued as a quality of life bond to fund three projects; the expansion and renovation of the downtown main library, the construction of a sports facility (softball complex) at Harmodon Park, and the construction of a new swimming pool at Nelson Park. The authorization was adopted on March 5, 2007, to become effective on March 29, 2007. It is anticipated that the bonds will be issued later in 2007.

Note 10—Defined Benefit Pension and Other Post-Employment Benefit Plans

A. Defined Benefit Pension Plans

Plan Description

The City of Sioux Falls administers two separate single-employer defined benefit pension plans established to provide retirement, disability, and survivor benefits for substantially all of its employees. The City Employee's Retirement System (CERS) and the City Firefighters' Pension Fund (CFPF) are considered to be part of the City of Sioux Falls' financial reporting entity and are included in the City's financial reports as Pension Trust funds; therefore, they do not issue stand-alone financial reports nor are they included in the report of another entity. Each plan's assets may be used only for the payment of benefits to the members of that plan or for payment of administrative expenses, in accordance with the terms of the plan as established or amended by City ordinance.

The CERS membership includes all uniformed and non-uniformed officers and employees who have certified civil service status and are not members or retirees of the CFPF, all officers and employees who are appointed by the Mayor and/or Council, and the Mayor. The CERS has two

divisions, general and police. The police division covers all uniformed non-civilian police officers and the general division includes all members not included in the police division. The CFPF membership includes all non-civilian full-time officers and firefighters of the City.

CERS general member employees are vested upon five years of service. CERS police and CFPF member employees become vested upon 15 years of service. All members of the CERS and CFPF are eligible for an actuarially reduced benefit upon completion of 20 years of service.

Summary of Significant Accounting Policies

Basis of Accounting. The financial statements are prepared using the accrual basis of accounting in accordance with generally accepted accounting principles applicable to governmental accounting for pension trust funds. Plan member contributions are recognized in the period in which the contributions are due. City contributions to each plan are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used to Value Investments. Investments are reported at fair value to properly reflect the asset values of the fund at December 31, 2006. Fair values were determined based on closing market prices for those securities traded on national and international exchanges. Securities without an established market are reported at estimated fair value. As of December 31, 2006, and the year then ended, the funds held no securities issued by the City or related parties.

Funding Policy

CERS general division member employees contribute 3 percent of their gross earnings and police division member employees contribute 8 percent of their gross earnings. CFPF member employees contribute 8 percent of their gross earnings. The employee contribution rates are established by City ordinance. Employer contributions are established by actuarial valuations determined necessary to cover: 1) all administrative costs; 2) the actuarially determined cost of future benefits accruing to members during the year; and 3) an amount sufficient to amortize any unfunded liability of the system over a period of 17 years.

Annual Pension Cost

City contributions to the CERS plan for 2004, 2005, and 2006 were \$4,270,076, \$4,499,260 and \$4,928,487 respectively, equal to the required contributions for each year. City contributions to the CFPF plan for 2004, 2005, and 2006 were \$890,875, \$1,053,254 and \$1,683,121 respectively, which also equaled the required contributions for each year.

City of Sioux Falls
Comprehensive Annual Financial Report
December 31, 2006

Notes to Financial Statements

Funding Status and Funding Progress

As of December 31, 2006, the funded status for the CERS and CFPF was 95.8% and 94.3% respectively. The CERS had actuarial accrued liabilities of \$222.3 million with an actuarial value of assets of \$213.0 million resulting in an unfunded actuarial accrued liability of \$9.3 million. The CFPF had actuarial accrued liabilities of \$87.2 million with an actuarial value of assets of \$82.2 million resulting in an unfunded actuarial accrued liability of \$5.0 million.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents a multi-year trend analysis of the funding progress for the CERS and CFPF pension plans.

Actuarial Methods and Assumptions

The information presented in the required supplementary schedules was determined as part of the annual actuarial valuation using the following actuarial methods and assumptions:

City Employee's Retirement System and City Firefighters' Pension Fund	
Valuation Date	December 31, 2006
Actuarial Cost Method	Entry-Age
Amortization Method	Level percent closed
Remaining Amortization Period	17 years
Asset Valuation Method	5 year smoothed market
Actuarial Assumptions:	
Investment Rate of Return	8%
Projected Salary Increases (merit/longevity)	0.0% - 4.0%
Inflation Rate	4.5%
Cost-of-Living Adjustments	June CPI with 3% cap beginning 36 months after retirement

Membership of the plans consisted of the following at December 31, 2006, the date of the last actuarial valuation:

	City Employee's Retirement System	City Firefighters' Pension Fund
Retirees and beneficiaries receiving benefits	417	133
Vested former members not yet receiving benefits	48	5
Active plan members	878	178
Total	1,343	316

B. Post-Employment Health Care Benefits

Plan Description

In addition to providing the pension benefits described above, City ordinance provides for other post-employment health care benefits (OPEB) for eligible retired employees through participation in the City's single employer self-insured Health/Life Benefit Fund (Plan). The Plan, which includes both active and retired members, is an internal service fund of the City. The benefit, benefit levels, and employee contribution rates are governed by City ordinance.

The Plan provides health care benefits for eligible retired employees and beneficiaries up to the age of Medicare eligibility. The benefit levels are the same as those afforded to active employees and include both health and dental coverage. City employees are eligible for post-retirement health care benefits if they are entitled to a retirement allowance and have participated in the Plan at least five years immediately preceding separation from City employment. The cost of premiums is split equally between the retired employee and the City.

Membership of the plans consisted of the following at December 31, 2006, the date of the last actuarial valuation:

	City Employee's Retirement System	City Firefighters' Pension Fund
Retirees and beneficiaries receiving benefits	141	58
Retirees and beneficiaries not receiving benefits	276	75
Active plan members	878	178
Total	1,295	311

Summary of Significant Accounting Policies

The City follows the same accounting policies in accounting for post-employment retiree health care benefits as for the defined benefit pension plan described above.

Funding Policy

The City has historically pre-funded other post-retirement health care benefits on an actuarial basis not in compliance with Governmental Accounting Standards Board (GASB) Statement No. 45 on OPEB. This historical funding was based upon the use of a blended premium rate for calculating active employee and retiree premiums. The 2006 annual actuarial valuation for OPEB as reported in the required supplementary information to this report, as well as the City's contribution rate for future years, are based upon funding OPEB in compliance with GASB Statement No. 45.

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Notes to Financial Statements

Annual OPEB Cost

City contributions to the CERS plan for 2004, 2005, and 2006 were \$490,656, \$595,278 and \$673,763 respectively. City contributions to the CFPF plan for 2004, 2005, and 2006 were \$205,117, \$247,378 and \$284,673 respectively.

Funding Status and Funding Progress

As of December 31, 2006, the funded status of OPEB within (CERS) and (CFPF) was 18.5% and 15.2% respectively. The CERS had actuarial accrued liabilities of \$31.1 million with an actuarial value of assets of \$5.7 million resulting in an unfunded actuarial accrued liability of \$25.3 million. The CFPF had actuarial accrued liabilities of \$11.2 million with an actuarial value of assets of \$1.7 million resulting in an unfunded actuarial accrued liability of \$9.5 million.

Actuarial Methods and Assumptions

The information as presented in the required supplementary schedules was determined as part of the annual actuarial valuations using the following actuarial methods and assumptions:

Valuation Date	December 31, 2006
Actuarial Cost Method	Entry-Age
Amortization Method	Level percent closed
Remaining Amortization Period	29 years
Asset Valuation Method	5 year smoothed market
Actuarial Assumptions:	
Investment Rate of Return	8%
Medical Inflation Rate	12.0% graded down to 4.5% in 2016
Paid Premium Rate Increase	2.0% graded down to 0.0% in 2018

Housing Commission Retirement Plan

All eligible employees of the Housing Commission participate in the Housing Renewal and Local Agency Retirement Plan, a cost sharing, multiple-employer public employee retirement system to provide retirement benefits for employees of local or regional housing authorities and commissions, urban renewal agencies, and other organizations that are eligible to participate in this plan

subject to the approval of the agreement. Eligible employees are defined as staff scheduled to work 20 or more hours per week after attaining age 18 and completing one year of continuous and uninterrupted employment. The right to receive retirement benefits is 20 percent vested after one year credited service up to 100 percent vested after five years credited service. Authority for establishing, administering, and amending plan provisions is found in Internal Revenue Code Section 401(a). The Automated Data Processing (ADP) Retirement Services issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to ADP Retirement Services, 462 South 4th Avenue, Suite 900, Louisville, KY 40202, or by calling (502) 561-4550. On June 24, 2002, the Housing Commission adopted Resolution No. 268-06-02 effective July 1, 2002, which implemented a mandatory after-tax employee contribution to the plan of 1 percent of basic compensation, and a corresponding employer contribution of 4 percent of basic compensation addition. The resolution permitted employees to voluntarily contribute additional after-tax amounts in excess of the 1 percent mandatory amount, which would be treated as voluntary contributions, and for which the employer would contribute additional corresponding amounts up to a maximum of 7 percent. The Housing Commission also changed the vesting provisions of the plan. Previously, the employer contributed 13 percent of basic compensation to the plan, such that 5.5 percent of those employer contributions were non-forfeitable, and the remaining 7.5 percent were subject to the plan's vesting schedule. Beginning July 1, 2002, the full amount of the employer's contributions will be subject to the plan's vesting schedule of 20 percent for each year of the employee's participation in the plan. During the years ended September 30, 2006, 2005, and 2004, the cost to the Commission was \$38,698, \$36,890, and \$36,824, respectively.

Individual Pension Plan Financial Statements

Individual financial statements for the City's two defined benefit pension plans are presented on the following pages.

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City of Sioux Falls
Comprehensive Annual Financial Report
December 31, 2006

Notes to Financial Statements - Fiduciary Funds Statement of Net Assets

	Employee's Retirement	Firefighters' Pension	Total Pension Trust Funds
Assets			
Cash and Cash Equivalents	\$ 2,676,759	\$ 975,038	\$ 3,651,797
Receivables:			
Accounts	290,453	107,439	397,892
Interest	525,700	191,383	717,083
Total Receivables	<u>816,153</u>	<u>298,822</u>	<u>1,114,975</u>
Investments at Fair Value:			
US Government	33,927,247	13,097,396	47,024,643
Foreign Obligations	676,417	265,735	942,152
Domestic Stocks	46,452,485	18,183,106	64,635,591
Foreign Stocks	4,204,379	1,680,644	5,885,023
Index Funds:			
Equity	42,656,293	16,408,507	59,064,800
Government / Corporate Bonds	23,073,072	8,870,122	31,943,194
Mutual Funds:			
Foreign Equity	51,050,108	19,326,104	70,376,212
Domestic Equity	23,133,290	8,717,577	31,850,867
Real Estate	12,782,520	4,922,590	17,705,110
Total Investments	<u>237,955,811</u>	<u>91,471,781</u>	<u>329,427,592</u>
Total Assets	<u>241,448,723</u>	<u>92,745,641</u>	<u>334,194,364</u>
Liabilities			
Accounts Payable	13,045	5,494	18,539
Accrued Wages	<u>4,072</u>	<u>2,149</u>	<u>6,221</u>
Total Liabilities	<u>17,117</u>	<u>7,643</u>	<u>24,760</u>
Net Assets			
Held in Trust for Pension and Health Benefits	<u>\$ 241,431,606</u>	<u>\$ 92,737,998</u>	<u>\$ 334,169,604</u>

**City of Sioux Falls
Comprehensive Annual Financial Report
Year Ended December 31, 2006**

Notes to Financial Statements - Fiduciary Funds Changes in Net Assets

	Employee's Retirement	Firefighters' Pension	Total Pension Trust Funds
Additions			
Contributions			
Employer	\$ 5,975,325	\$ 2,096,083	\$ 8,071,408
Plan Members	1,907,951	804,140	2,712,091
Total Contributions	<u>7,883,276</u>	<u>2,900,223</u>	<u>10,783,499</u>
Investment Income (Loss)	33,030,851	12,813,932	45,844,783
Less Investment Expense	437,246	182,329	619,575
Net Investment Income (Loss)	<u>32,593,605</u>	<u>12,631,603</u>	<u>45,225,208</u>
Total Additions	<u>40,476,881</u>	<u>15,531,826</u>	<u>56,008,707</u>
Deductions			
Benefit Payments			
Pension	8,662,750	3,755,563	12,418,313
Health Premiums	673,764	284,672	958,436
Total Benefit Payments	<u>9,336,514</u>	<u>4,040,235</u>	<u>13,376,749</u>
Refunds	189,338	133,085	322,423
Administrative Expense	<u>142,505</u>	<u>72,946</u>	<u>215,451</u>
Total Deductions	<u>9,668,357</u>	<u>4,246,266</u>	<u>13,914,623</u>
Net Increase (Decrease)	30,808,524	11,285,560	42,094,084
Net Assets - Beginning	<u>210,623,082</u>	<u>81,452,438</u>	<u>292,075,520</u>
Net Assets - Ending	<u>\$ 241,431,606</u>	<u>\$ 92,737,998</u>	<u>\$ 334,169,604</u>

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APPENDIX C -
FORM OF BOND COUNSEL OPINION

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Re: \$2,290,000 City of Sioux Falls, South Dakota Tax Increment Revenue Bonds, Series 2008A

Ladies and Gentlemen:

We have acted as Bond Counsel to the City of Sioux Falls, South Dakota (the "City") in connection with the authorization, sale and issuance by the City of the bonds described above, dated, as originally issued, January 31, 2008 in the aggregate principal amount of \$2,290,000 (the "Series 2008A Bonds"). For the purpose of this opinion, we have examined certified copies of certain proceedings taken and certain certificates and affidavits furnished by the City in the authorization, sale and issuance of the Series 2008A Bonds, including (i) the form of the Series 2008A Bonds, (ii) an ordinance adopted by the City Council on December 17, 2007 and (iii) an Indenture of Trust (the "Indenture"), dated as of January 1, 2008 between the City and The First National Bank in Sioux Falls. From our examination of such proceedings, certificates and affidavits, assuming the authenticity thereof, the genuineness of the signatures thereon and the accuracy of the facts stated therein, and on the basis of federal and South Dakota laws, regulations, rulings and decisions enacted, promulgated or rendered and in effect on the date hereof, in our opinion:

The Series 2008A Bonds are valid and binding special obligations of the City enforceable in accordance with their terms. The Series 2008A Bonds are not general obligations of the City and the general credit and taxing powers of the City are not pledged to the payment of the principal thereof or interest thereon.

The principal of and interest on the Series 2008A Bonds are payable from the collections of certain local tax increment revenues constituting the Tax Increment Revenues, as defined in the Indenture, pledged to the payment thereof, and the Series 2008A Bonds, together with any other bonds issued heretofore and any other bonds issued hereafter on a parity therewith (collectively, the "Bonds"), constitute a lien on the Tax Increment Revenues.

In and by the Indenture the City has validly made and entered into covenants and agreements with and for the benefit of the owners from time to time of all Bonds issued thereunder, including covenants that it will credit the Tax Increment Revenues as received to the appropriate funds; that additional bonds and refunding bonds may be issued and made payable from the Principal and Interest Account on a parity with the Bonds upon certain conditions set forth in the Indenture, but no obligation will be otherwise incurred and made payable from the Tax Increment Revenues, unless the lien thereof shall be expressly made subordinate to the lien of the Series 2008A Bonds on the Tax Increment Revenues; and that all provisions for the security of the owners of the Series 2008A Bonds as set forth in the Indenture will be punctually and faithfully performed as therein stipulated.

Interest to be paid on the Series 2008A Bonds is not includable in gross income for federal income tax purposes, but the interest is includable in gross income for South Dakota tax purposes when the owner is a financial institution as defined in South Dakota Codified Laws, Chapter 10-43. Interest to be paid on the Series 2008A Bonds is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of the federal alternative minimum tax imposed on corporations.

The opinions expressed in paragraphs 1 through 3 above, are subject to the effect of any state or federal laws relating to bankruptcy, insolvency, reorganization, moratorium or creditors' rights and the exercise of judicial discretion.

The opinions expressed in paragraph 4 above are subject to the condition of the City's compliance with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Series 2008A Bonds in order that interest thereon may be, and continue to be, excluded from gross income for federal income tax purposes, and the Series 2008A Bonds be and continue to be qualified tax-exempt obligations. The City has covenanted to comply with these continuing requirements. Its failure to do so could result in the inclusion of interest on the Series 2008A Bonds in federal gross income retroactive to the date of issuance of the Series 2008A Bonds. Except as stated in this opinion, we express no opinion regarding federal, state or other tax consequences to holders of the Series 2008A Bonds.

Dated: January 31, 2008.

Very truly yours,

**APPENDIX D –
BOOK-ENTRY ONLY SYSTEM**

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BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, New York will act as securities depository for the Series 2008A Bonds. The ownership of one fully registered Bond for each maturity of the Series 2008A Bonds will be registered in the name of Cede & Co., as nominee for DTC, or such other name as may be requested by an authorized representative of DTC, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSAC, MBSCC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of beneficial ownership interests in the Series 2008A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2008A Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (the “Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2008A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the Book-Entry System for the Series 2008A Bonds is discontinued as described below.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2008A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. For every transfer and exchange of beneficial ownership in the Series 2008A Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2008A Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Series 2008A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Series 2008A Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Bonds of such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to any Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2008A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of the principal, redemption price and interest on the Series 2008A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee) or the City, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC), is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and

disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

THE INFORMATION PROVIDED IMMEDIATELY ABOVE UNDER THIS CAPTION HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE CITY OR THE PLACEMENT AGENT AS TO THE ACCURACY, COMPLETENESS OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

While the Series 2008A Bonds are registered in the name of DTC or its nominee or any successor Securities Depository or its nominee, the City and the Trustee will recognize only DTC or its nominee or such successor Securities Depository or its nominee as the registered owner of the Series 2008A Bonds for all purposes, including payments, notices and voting.

The City shall have no responsibility or obligation with respect to:

(i) the accuracy of the records of DTC, its nominee or any DTC Participant or Indirect Participant or any successor Securities Depository, participants thereof or nominee thereof with respect to any beneficial ownership interest in the Series 2008A Bonds;

(ii) the delivery to any DTC Participant or Indirect Participant or participant of any successor Securities Depository or any other Person, other than a registered owner, as shown in the Bond Register, of any notice with respect to any Series 2008A Bond, including, without limitation, any notice of redemption;

(iii) the payment to any DTC Participant or Indirect Participant or participant of any successor Securities Depository or any other Person, other than a registered owner, as shown in the Bond Register, of any amount with respect to the principal of, premium, if any, or interest on, or the purchase price of, any Series 2008A Bond;

(iv) any consent given by DTC or any successor Securities Depository as registered owner; or

(v) the selection by DTC or any Direct Participant or Indirect Participant or by any Successor Depository or its participants of the beneficial ownership interests in Bonds for partial redemption.

So long as the Series 2008A Bonds are held in the book-entry only system of the Securities Depository, the City and the Trustee may treat DTC and any successor Securities Depository as, and deem DTC and any successor Securities Depository to be, the absolute owner of the Series 2008A Bonds for all purposes whatsoever, including, without limitation: (i) the payment of the principal of, premium, if any, and interest on and the purchase price of the Series 2008A Bonds; (ii) giving notices of redemption and other matters with respect to the Series 2008A Bonds; (iii) registering transfers with respect to the Series 2008A Bonds; and (iv) the selection of the beneficial ownership interests in Bonds for partial redemption.

APPENDIX E –

FORM OF UNDERTAKING CONCERNING CONTINUING DISCLOSURE

The following is a brief summary of certain provisions of the Continuing Disclosure Agreement relating to the Series 2008A Bonds and does not purport to be complete or definitive and investors should refer to the Continuing Disclosure Agreement for a complete recital of its terms. A copy of the Continuing Disclosure Agreement is available upon request from the Trustee.

In order to permit the Underwriters and other participating underwriters of the Series 2008A Bonds to comply with paragraph (b)(5) of Rule 15c2-12 promulgated by the Securities and Exchange Commission (the “SEC”) under the Securities Exchange Act of 1934, as amended (as in effect and interpreted from time to time, the “Rule”), the City will covenant and agree, for the benefit of the Owners (as hereinafter defined) from time to time of the Outstanding Series 2008A Bonds, in a Continuing Disclosure Agreement, dated as of January 1, 2008, between the City and the Trustee, as agent (the “Continuing Disclosure Agreement”), to provide annual reports of specified information and notice of the occurrence of certain material events as hereinafter described. The City is the only “obligated person” in respect of the Series 2008A Bonds within the meaning of the Rule for purposes of identifying the entities in respect of which continuing disclosure must be made. The City has not defaulted under a continuing disclosure undertaking it has entered into under the Rule.

As used herein, “Owner” or “Series 2008A Bondowner” means, in respect of a Series 2008A Bond, the registered owner or owners thereof appearing in the bond register maintained by the Trustee or any Beneficial Owner (as hereinafter defined) thereof, if such Beneficial Owner provides to the Trustee evidence of such beneficial ownership in form and substance reasonably satisfactory to the Trustee. As used herein, “Beneficial Owner” means, in respect of a Series 2008A Bond, any person or entity which (i) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Series 2008A Bond (including persons or entities holding Series 2008A Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of the Series 2008A Bond for federal income tax purposes.

As used herein, a “Material Fact” is a fact as to which a substantial likelihood exists that a reasonably prudent investor would attach importance thereto in deciding to buy, hold or sell a Series 2008A Bond or, if not disclosed, would significantly alter the total information otherwise available to an investor from the Official Statement, information disclosed under the Continuing Disclosure Agreement or information generally available to the public. Notwithstanding the foregoing, a “Material Fact” is also an event that would be deemed “material” for purposes of the purchase, holding or sale of a Series 2008A Bond within the meaning of applicable federal securities laws, as interpreted at the time of discovery of the occurrence of the event.

Information To Be Provided

Annual Information

The City will agree that on or before the earlier of (a) one hundred eighty (180) days after the end of each fiscal year of the City, or (b) thirty (30) days after the audited financial statements accompanied by a signed audit opinion are available commencing with the fiscal year ending December 31, 2007, deliver to the Trustee certain financial information and operating data relating to the City for the preceding fiscal year of the City as hereinafter specified (the "Disclosure Information"), accompanied by a City certificate stating in effect that such information is the City Disclosure Information required to be submitted under the Continuing Disclosure Agreement.

The Disclosure Information comprises the following (subject to modification as described below):

(1) A complete audit report and opinion of an Accountant and the statements of financial position of the City for such fiscal year, containing a balance sheet as of the end of such fiscal year and a statement of changes in net assets and statement of cash flows for the fiscal year then ended, and showing in comparative form such figures for the preceding fiscal year of the City, prepared in accordance with generally accepted accounting principles promulgated by the Financial Accounting Standards Board applicable to entities such as the City as in effect from time to time, or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles for reasons beyond the reasonable control of the City noting the discrepancies therefrom and the effect thereof.

(2) To the extent not included in the financial statements referred to in paragraph (1) hereof, the information of the type identified below, which information may be unaudited, but shall be certified as to accuracy and completeness in all material respects by the chief financial officer of the City to the best of his or her knowledge, which certification may be based on the reliability of information obtained from governmental or other third party sources:

The following financial information and operating data as of the beginning or end of the most recent complete academic or fiscal year, as appropriate:

a. The matters covered by the Sections and Subsections of Appendix A to this Official Statement entitled:

Demographics
City Government
City Services
City Property Tax Values
Principal Property Taxpayers
Construction
Ten Largest Employers in the City

FINANCIAL INFORMATION FUTURE FINANCING OF THE CITY

Notwithstanding the foregoing paragraph, if the audited financial statements are not available by the date specified, the City will agree to provide on or before such date unaudited financial statements in the format required for the audited financial statements as part of the Disclosure Information and, within 10 days after the receipt thereof, the City is to provide the audited financial statements.

Any or all of the Disclosure Information may be incorporated by reference, if updated as required by the Continuing Disclosure Agreement, from other documents, including official statements, which have been submitted to each then nationally recognized municipal securities information repository under the Rule (collectively, the "National Repositories") and to any state information depository then designated or operated by the State of South Dakota as contemplated by the Rule (the "State Depository") or to the SEC. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board (the "MSRB"). The City will agree to clearly identify in the Disclosure Information each document so incorporated by reference.

If any part of the Disclosure Information can no longer be generated because the operations of the City have materially changed or been discontinued, such Disclosure Information need no longer be provided if the City includes in the Disclosure Information a statement to such effect; provided, however, if such operations have been replaced by other City operations in respect of which data is not included in the Disclosure Information and the School determines that certain specified data regarding such replacement operations would be a Material Fact, then, from and after such determination, the Disclosure Information shall include such additional specified data regarding the replacement operations.

If the Disclosure Information is changed or the Continuing Disclosure Agreement is amended in accordance with its terms, then the City is to include in the next Disclosure Information to be delivered, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

Certain Events

The City is also to provide to the Trustee timely notice of any of the following events or conditions which is a Material Fact (as used herein, the "Material Events"):

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;

- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the security;
- (7) Modifications to rights of security holders;
- (8) Bond calls;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the securities; and
- (11) Rating changes.

The City also agrees to notify the Trustee promptly of any change in the fiscal year and of any change in the accounting principles pursuant to which the financial statements constituting a portion of the Disclosure Information are prepared (the "Other Events").

Disclosure of Information

The Trustee is authorized and directed to make available to the entities identified below the following information in a timely manner by telecopy, overnight delivery, mail or other means, as appropriate:

- (a) the Disclosure Information to each of the National Repositories and to the State Depository, if any (collectively the "Repositories"); provided, however, that any filing with a Repository under the Continuing Disclosure Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council ("MAC") as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretative advice in its letter to MAC dated September 7, 2004;
- (b) any Material Event reported to the Trustee by the City in the form provided by the City, to the MSRB and to the State Depository, if any;
- (c) the failure of the City to provide the Disclosure Information required to be provided to the Trustee under the Continuing Disclosure Agreement, within 180 days after the fiscal year, to the MSRB and to the State Depository, if any;
- (d) any amendment of or supplement to the Continuing Disclosure Agreement entered into in accordance with the provisions thereof, together with a copy of such amendment or supplement and any explanation thereof provided by the City pursuant to the Continuing Disclosure Agreement, to the MSRB and to the State Depository, if any;

(e) the termination of the obligations of the City under the Continuing Disclosure Agreement in respect of the Series 2008A Bonds, to the MSRB and to the State Depository, if any; and

(f) any Other Event reported by the City to the Trustee, to the MSRB and the State Depository, if any.

At the written request of the City, the Trustee is also to furnish promptly to the Repositories a copy of any other information provided by the City for such dissemination.

Disclosure to Bondowners

Nothing in the Continuing Disclosure Agreement is intended to limit the ability of the Trustee to communicate with the Bondowners in such manner and at such times as it shall deem appropriate in executing the trusts under the Indenture. The Trustee is not required to forward any such communication to the Repositories, unless and only to the extent it is specifically described under "Disclosure of Information" above.

Term

The Continuing Disclosure Agreement is to remain in effect so long as any Series 2008A Bonds are Outstanding. The Continuing Disclosure Agreement is to terminate, however, as of any date on which the City delivers to the Trustee an opinion of Bond Counsel to the effect that, because of legislative action or final judicial or administrative actions or proceedings, the failure of the City to comply with this Agreement will not cause Participating Underwriters to be in violation of the Rule or other applicable requirements of the Securities Exchange Act of 1934, as amended, or any statutes or laws successor to thereto or amendatory thereof.

Costs, Expenses and Indemnification of Trustee

The City will agree to pay reasonable compensation of the Trustee for, and all costs and expenses of the Trustee incurred in, performing the services required of it under the Continuing Disclosure Agreement, whether as agent for the City or otherwise.

The City will further agree to indemnify and hold harmless the Trustee and its officers, directors and agents from and against any and all claims, damages, losses, liabilities, reasonable costs and expenses whatsoever (including reasonable attorneys' fees and expenses) which such indemnified party may incur by reason of or in connection with the Trustee's disclosure of information pursuant to the Continuing Disclosure Agreement unless caused by the willful misconduct or negligence of the Trustee in such disclosure of information.

Defaults, Remedies

Failure of the City or the Trustee to comply with any provisions of the Continuing Disclosure Agreement on its part to be observed constitutes a default thereunder and any party thereto aggrieved thereby (excluding the Trustee, which is acting as agent of the

City, but including the Owners of any Outstanding Series 2008A Bonds as third-party beneficiaries thereof) may take whatever action at law or in equity may appear necessary or appropriate to enforce performance and observance of any agreement or covenant contained herein, including an action for specific performance. Direct, indirect, consequential and punitive damages, however, shall not be recoverable by any Person for any default thereunder and are waived to the extent permitted by law. In no event shall a default under the Continuing Disclosure Agreement constitute a default or an Event of Default under the Series 2008A Bonds or the Indenture.

In addition to the foregoing remedies, in the event the City breaches its covenant to provide the City Disclosure Information to the Trustee by the dates prescribed therefor, and such breach continues until the date 270 days after the end of the fiscal year as to which such disclosure is to be made, then the Trustee is to make available promptly to the Repositories notice of such failure.

Binding Effect

The Continuing Disclosure Agreement is to inure to the benefit of and be binding upon the City and the Trustee and their respective successors and permitted assigns (including any permitted successor to the City under the Indenture); provided, however, that in the event another Person succeeds to the obligations and agreements of the City under the Continuing Disclosure Agreement, the City Disclosure Information may be modified to the extent permitted as described under "Amendments; Interpretation."

Amendments; Interpretation

The Continuing Disclosure Agreement (and the form and requirements of the Disclosure Information) may be amended or supplemented from time to time, without notice to or the consent of the Owners of any Series 2008A Bonds in a writing executed by the City and the Trustee (and the consent of the Trustee to such an amendment is not to be unreasonably withheld or delayed) accompanied by an opinion of Bond Counsel, who may rely on certificates of the City and others and the opinion may be subject to customary qualifications, to the effect that: (i) such amendment or supplement (a) is made in connection with a change in circumstances that arises from a change in law or regulation or a change in the identity, nature or status of the City or the type of business conducted by the City, or (b) is required by, or better complies with, the provisions of paragraph (b)(5) of the Rule; (ii) the Continuing Disclosure Agreement as so amended or supplemented would have complied with the requirements of paragraph (b)(5) of the Rule at the time of the primary offering of the Series 2008A Bonds, giving effect to any change in circumstances applicable under clause (i)(a) and assuming that the Rule as in effect and interpreted at the time of the amendment or supplement was in effect at the time of the primary offering; and (iii) such amendment or supplement does not materially impair the interests of the Bondholders under the Rule. The Continuing Disclosure Agreement is to be construed so as to satisfy the requirements of paragraph (b)(5) of the Rule.